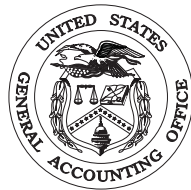

April 2000

**BREAST CANCER
RESEARCH STAMP****Millions Raised for
Research, but Better
Cost Recovery
Criteria Needed**



G A O

Accountability * Integrity * Reliability

**United States General Accounting Office
Washington, D.C. 20548**

General Government Division

B-282358

April 28, 2000

The Honorable Thad Cochran
Chairman
The Honorable Daniel Akaka
Ranking Minority Member
Subcommittee on International Security,
Proliferation and Federal Services
Committee on Governmental Affairs
United States Senate

The Honorable John M. McHugh
Chairman
The Honorable Chaka Fattah
Ranking Minority Member
Subcommittee on the Postal Service,
Committee on Government Reform
House of Representatives

This report discusses the Postal Service's Breast Cancer Research Stamp. It responds to Section 2 (b) of the Stamp Out Breast Cancer Act, Public Law 105-41, August 13, 1997, which directs the Comptroller General to submit a report to Congress that

- describes the monetary and other resources required of the Postal Service in developing and selling the Breast Cancer Research Semipostal (BCRS),¹
- evaluates the effectiveness of using the BCRS as a means of fund-raising, and
- evaluates the appropriateness of using the BCRS as a means of fund-raising.

In doing this work, we focused most heavily on how the Service went about identifying and allocating the costs it incurred in developing and marketing the BCRS and the issues associated with effectiveness. Additionally, we discuss the statutory authorities and constraints associated with the Postal Service's issuance of semipostals, in general, as

¹ A semipostal is a stamp sold at a surcharge over postal value. The additional charge is for a special purpose.

a means of fund-raising. We also provide information that Congress may want to consider as it deliberates proposals for additional semipostals.

As part of our evaluations of the effectiveness and appropriateness of using the BCRS as a means of fund-raising, we discuss the opinions of key stakeholders involved with breast cancer research/funding and philately. We also provide information on 12 semipostals issued by foreign postal administrations. The information on the 12 semipostals was collected from 8 of 10 foreign postal administrations that responded to our questionnaire. We also discuss the results of a statistically generalizable survey of adults (18 years of age or older) in the continental United States that we commissioned to determine the public's opinion of the BCRS. Additionally, we provide information on BCRS sales and the resulting proceeds transferred to the National Institutes of Health (NIH) and the Department of Defense (DOD) for breast cancer research.

The Stamp Out Breast Cancer Act directed the Postal Service to establish a special stamp—known as a semipostal—to raise money for breast cancer research. This stamp, the BCRS, is the first stamp ever issued by the Postal Service to raise money for nonpostal purposes. The BCRS is a “blockbuster” commemorative stamp,² costs 40 cents, and is valid for the 33-cent First-Class postage rate, leaving 7 cents as surcharge revenue. The act provides that the Service is to deduct from the surcharge revenue the reasonable costs it incurs in carrying out the act, including those attributable to the printing, sale, and distribution of the BCRS, as determined under regulations it shall prescribe. The Service is to remit the remaining net proceeds from the surcharge revenue to NIH and DOD for breast cancer research. Seventy percent of the net proceeds go to NIH, with the remaining 30 percent going to DOD's medical research program.

Results in Brief

It is not clear precisely how much it cost to develop and sell the BCRS because there were costs that the Service did not track. Postal officials said the costs not tracked were inconsequential or immaterial, and it would have been too expensive to track these costs. On March 16, 2000, the Service reported that the bulk of its costs to develop and sell the BCRS through December 31, 1999, was \$5.9 million. According to the Service, almost all of these costs would have been incurred with any blockbuster commemorative stamp issue and have been recovered through the 33

² A commemorative stamp is a postage stamp that depicts the cultural and historical heritage of the United States; e.g., important people, events, places, or special subjects of national appeal or significance. A “blockbuster” commemorative is a commemorative stamp that has mass appeal; garners Postal Service support on a national level; and, in most cases, will be highly retained by postal patrons and not used for postage.

cents that constitutes the First-Class postage portion of the BCRS. However, the remaining costs which are unique to the BCRS program are to be recouped from its surcharge revenue. Since BCRS sales are not scheduled to end until July 28, 2000, some additional costs may be incurred.

In a report dated March 31, 2000, the Postal Service Office of Inspector General (OIG) identified \$836,000 in costs that it believed were attributable to the BCRS program and not previously identified by the Service. Earlier in March, after reviewing a draft of OIG's report, the Service agreed that \$488,000 of these costs were incurred exclusively on behalf of the BCRS program, and included them in its reported \$5.9 million in BCRS costs. The Service and OIG had not, as of March 31, 2000, resolved their differences over the remaining \$348,000 in costs identified by OIG. To the extent that the remaining costs are attributable to the BCRS program, we believe they should be added to the total BCRS costs and reported by the Service.

We are concerned that the Service has yet to prescribe, as required by the act, regulations setting forth its criteria for determining the reasonable costs to be recouped from the surcharge revenue generated by the BCRS. The act required that the Service prescribe such regulations, but it did not establish a date by which this was to occur. Through much of the BCRS' sales period, the Service has used an evolving set of informal criteria to decide what costs it would recoup from the surcharge revenue. The Service initially planned not to recoup any costs from the surcharge revenue; however, using its latest informal criteria, the Service has decided that it will recoup \$482,000. According to the Service, all other BCRS costs have been recovered through the 33-cent First-Class postage rate, but the Service provided no data or analysis showing that these costs have been recovered.

Because the Service has not yet developed formal, written criteria for determining the costs to be recouped from the BCRS surcharge revenue, as the act requires, and has revised its informal criteria several times since the BCRS went on sale, it is difficult for Congress, us, and others to evaluate how well the Service is implementing its legislative mandate to recoup reasonable costs. The absence of formal written criteria also makes it difficult for Congress to determine the appropriateness of the Service's criteria.

The act did not provide quantitative measures for evaluating the effectiveness of the BCRS as a fund-raiser. However, the act provided that the BCRS would be voluntary and convenient, and it would raise funds for

breast cancer research. To these ends, the BCRS has been successful. The BCRS is voluntary because postal patrons may choose to purchase it for First-Class postage at 40 cents or purchase any of the Service's other, non-semipostal First-Class stamps at 33 cents. It is convenient, as attested to by 68 percent of adults responding to the public opinion survey we commissioned; and it had raised about \$10 million for breast cancer research by the end of 1999. Additionally, the BCRS is expected to raise more money for breast cancer research by the time sales are scheduled to conclude on July 28, 2000.

The key breast cancer research/funding stakeholders we spoke with that expressed an opinion on the BCRS' effectiveness as a fund-raiser believed that it had been effective. The most serious concern expressed was that money raised by the BCRS could be used to supplant appropriated dollars for breast cancer research—even though the act states that it is the sense of Congress that the act should neither directly nor indirectly cause a net decrease in total funds received by NIH or DOD. In addition, the public's view of the BCRS was generally positive; and a majority of the adults responding to our public opinion survey expressed a desire to see more semipostals in the future for other special, nonpostal purposes.

The BCRS' performance, compared to foreign semipostals, was mixed. The BCRS generated more money for its designated beneficiaries, in an average month, than was reported to have been generated by 7 of the 12 foreign semipostals. On the other hand, on a per capita basis, 8 of the 12 foreign semipostals were reported to have generated more money for their beneficiaries than did the BCRS. On the basis of the collective results of all the measures we used to evaluate effectiveness, we believe the BCRS has been an effective fund-raiser.

With respect to appropriateness, about 71 percent of adults responding to the public opinion survey we commissioned, and most of the key stakeholders we spoke with, believed that it is appropriate to use semipostals issued by the Service to raise funds for nonpostal purposes. The Service, although supportive of the BCRS, is generally opposed to semipostals because it believes that congressional mandates to issue semipostals expand the Service's mission beyond what was defined by the Postal Reorganization Act of 1970 and that the BCRS' success may not mean success for other semipostals. Likewise, the American Philatelic Society opposes the use of semipostals because it views them as a tax on the Society's members that falls disproportionately and unfairly on their hobby. However, the president of the American Philatelic Society stated that if a fair process could be designed to choose no more than two

semipostals per year, he believed stamp hobbyists could live with that process.

The eight foreign postal administrations that responded to the questionnaire we sent them were evenly split on the question of the appropriateness of their countries using semipostals to raise funds for nonpostal purposes. The postal administrations of Germany, The Netherlands, Belgium, and New Zealand believed semipostals are an appropriate way to raise money. The postal administrations of Austria, Canada, the United Kingdom, and Sweden believed semipostals are inappropriate—and the United Kingdom and Sweden have permanently discontinued semipostal sales. Canada does not currently have any semipostals for sale, although it has not ruled out selling them at some future date. Although the Austrian postal administration believes semipostals are inappropriate, it continues to issue them annually at the direction of its legislature.

We do not believe that the Service has the authority to issue semipostals on its own volition without specific legislation authorizing it to do so. Although the act gave the Service the specific authority to issue the BCRS, it was silent with regard to the appropriateness of the Service issuing additional semipostals for other causes. Postal officials, however, have stated that in the absence of statutory authority to issue semipostals, it is unclear whether selling such stamps would be consistent with the underlying statutory and regulatory authorities governing the Service. We do not interpret the Service's underlying statutory authority as authorizing it to establish postage rates and fees for a particular stamp at a level that exceeds its postage value for purposes of generating revenue for contributions to a charitable cause.

We are offering two matters for Congress to consider should it decide that the Postal Service is not recouping all of the costs from the BCRS that Congress intended. We are also making recommendations to the Postmaster General to address the problems we identified regarding costs to be recouped from the BCRS surcharge revenue.

Background

Congress passed the Stamp Out Breast Cancer Act on August 13, 1997. The act required the Postal Service to establish, within 1 year, a First-Class stamp with an added surcharge that would allow the public to make a contribution to breast cancer research each time it purchased one or more of these special stamps. The act stipulated that the Postal Service's Board of Governors was to determine the surcharge amount that would be added to the First-Class postage rate. The surcharge was not to exceed 25

percent of the First-Class postage rate, which, at the time, was 32 cents. The Board of Governors set the price of the stamp at 40 cents—32 cents for First-Class postage plus the maximum 25-percent surcharge of 8 cents.³

The act further stipulated that the BCRS was to be offered to the public as an alternative to regular First-Class postage, thereby allowing postal patrons purchasing the BCRS to make a voluntary contribution equal to the surcharge amount. The act directed the Postal Service to make the BCRS convenient for postal patrons to purchase. It stipulated that the Service transfer 70 percent of the net proceeds from the surcharge to NIH for breast cancer research and 30 percent to DOD for the same purpose. Net proceeds are the revenue generated from the surcharge, less reasonable costs incurred by the Service in carrying out the statutory mandate, as determined by the Service under regulations it shall prescribe. The act directed that the Service's authority to issue the BCRS would terminate 2 years from the date on which the BCRS first became available to the public.⁴

The BCRS was dedicated at a White House ceremony on July 29, 1998—the date of issuance. As mandated by the act, the BCRS is to be available for sale through July 28, 2000—2 years from the date it was issued.

According to the Service, the BCRS was the idea of Dr. B.I. Bodai, the Director of Breast Surgical Services for Kaiser Permanente, Sacramento, CA. Literature on the BCRS states that Dr. Bodai, with the support of Ms. Betsy Mullen, the founder of the Women's Information Network Against Breast Cancer, lobbied Congress to pass legislation creating the Nation's first-ever semipostal.

The BCRS is a self-adhesive, nondenominational First-Class commemorative stamp. According to the Service, the BCRS was designed by Ethel Kessler of Bethesda, MD, a breast cancer survivor. Postal literature states that the BCRS was illustrated by Whitney Sherman of Baltimore, MD, and features “a black line drawing of a female figure, suggesting a ‘goddess of the hunt or fight’.” The words “BREAST CANCER” and “FUND THE FIGHT. FIND A CURE.” accompany the illustration. (See fig. 1.)

³ When the price of First-Class postage increased to 33 cents on January 10, 1999, the Board of Governors decided that the price of the BCRS would remain at 40 cents.

⁴ H.R. 4069 and S. 2386 were introduced in Congress on March 23, 2000, and April 11, 2000, respectively, to extend the sales period for the BCRS for 2 years.

Figure 1: Reproduction of the 1998 Breast Cancer Research Semipostal



Source: U.S. Postal Service.

The Postal Service has never before issued any semipostals, but foreign postal administrations have used them for many years—with some semipostals dating as far back as the 1800s. According to the president of the American Philatelic Society, approximately 50 countries issued semipostals at some time during the 1990s. Of those countries, 17 issued semipostals on a routine basis. Those countries were Argentina, Aruba, Austria, Belgium, Denmark, Finland, France, Germany, Greenland, Hungary, Indonesia, Luxembourg, The Netherlands, Netherlands Antilles, New Zealand, Switzerland, and Turkey. The semipostal surcharge revenues raised by those countries went to such beneficiaries as The Red Cross, the Olympics, social and cultural programs, child welfare, and the promotion of philately.

NIH and DOD officials reported that they will, as required by the act, use the money generated by the BCRS to fund breast cancer research. NIH officials stated that money received from the BCRS will be used to fund peer-reviewed research awards, such as “Insight Awards” to stamp out breast cancer. Officials described Insight Awards as a new initiative

designed to support innovative pilot studies that will generate a new understanding of breast cancer.

DOD officials said that money received from the BCRS will be used to supply additional financial support for the extramural breast cancer research program managed by the U.S. Army Medical Research and Materiel Command. Officials said the money would be spent through peer-reviewed award mechanisms such as “Idea Awards” that are intended to encourage innovative approaches to breast cancer research.

On September 30, 1998, OIG reported on its review of postal management’s early actions to implement the act. OIG identified several issues it believed warranted postal management’s attention. The key issue focused on needed improvements in the BCRS program to better define program costs.

Scope and Methodology

In describing the monetary and other resources required by the Postal Service in developing and selling the BCRS, and in evaluating the effectiveness and appropriateness of using the BCRS as a means of fund-raising, we interviewed postal officials responsible for the BCRS program and gathered and analyzed pertinent information on costs, revenue, and resources used to develop and sell the BCRS. During the course of our work, OIG concluded a follow-up audit of the BCRS program. We reviewed OIG’s draft report and incorporated its findings where appropriate. We also gathered information on 12 semipostals issued by 8 foreign postal administrations that had experience with semipostals.

We interviewed key stakeholders involved with breast cancer research/fund-raising and philately to obtain their opinions on the BCRS. We interviewed representatives of (1) the American Cancer Society, who stated that the Society is the Nation’s largest nongovernmental funder of cancer research; (2) the National Breast Cancer Coalition (NBCC), an alliance of over 500 member organizations and 60,000 individuals dedicated to lobbying Congress and the states for improved public policies for eradicating breast cancer; and (3) the Susan G. Komen Breast Cancer Foundation, a leader in the field of breast cancer research, education, screening and treatment. We also interviewed (1) Dr. B.I. Bodai, the individual credited with conceiving the idea for the BCRS and spearheading the lobbying effort that resulted in Congress passing the Stamp Out Breast Cancer Act; (2) the president of the American Philatelic Society, which represents over 55,000 stamp collectors; and (3) the Curator of the Smithsonian Institution’s National Philatelic Collection.

To obtain the public's views on the BCRS, we contracted with International Communications Research (ICR) to conduct a statistically representative survey of adults 18 years of age and older in the continental United States. We researched and analyzed applicable sections of the U.S. Code and Postal Service regulations. We also met with NIH and DOD officials to review the arrangements they had with the Postal Service to receive the surcharge revenue from the BCRS and to discuss how they planned to use that money. Appendix I provides further details about our objectives, scope, and methodology.

We conducted our review at Postal Service Headquarters in Washington, D.C., between June 1999 and March 2000 in accordance with generally accepted government auditing standards. To verify the accuracy of financial data provided by the Postal Service, we discussed financial accountability for the BCRS with officials of the Postal Inspection Service. We also reviewed a random selection of Inspection Service audit reports that covered, among other things, internal controls over accountable paper—such as postage stamps which included the BCRS.

We requested comments on a draft of this report from the Postmaster General. The Service's comments are discussed at the end of this letter and are reprinted in appendix III.

Monetary and Other Resources Used to Develop and Sell the BCRS

It is not clear precisely how much it cost the Postal Service to develop and sell the BCRS. There were costs the Service did not track because it believed that these costs would be inconsequential or immaterial. The Service reported that the bulk of its costs through December 31, 1999 were \$5,921,000. These costs include \$488,000 in BCRS costs identified by OIG that the Service had not identified. Additional costs may be incurred before BCRS sales are scheduled to end on July 28, 2000. According to the Service, almost all of these costs would have been incurred with any blockbuster commemorative stamp issue and have been recovered through the 33 cents that constitutes the First-Class postage portion of the BCRS. However, the remaining costs which are unique to the BCRS program are to be recouped from its surcharge revenue.

The Stamp Out Breast Cancer Act required that the Service prescribe regulations setting forth the criteria it will use to determine the reasonable costs to be recouped from the surcharge revenue generated by the BCRS. However, the act did not establish a deadline to prescribe such regulations.

As of March 2000, the Service had not prescribed regulations containing formal, written criteria for determining the reasonable costs to be

recouped from the BCRS' surcharge revenue. Through much of the BCRS' sales period, the Service has used an evolving set of informal criteria to decide what costs it would recoup from the surcharge revenue. The Service initially planned not to recoup any costs from the surcharge revenue; however, using its latest informal criteria, the Service has decided that it will recoup \$482,000 in BCRS costs from the surcharge revenue. The Service considers these costs to be unique to the BCRS. According to the Service, all other BCRS costs have been recovered through the 33-cent First-Class postage rate, but the Service provided no data or analysis showing that these costs have been recovered. Postal officials said there may be some additional costs to be recouped before BCRS sales are scheduled to end on July 28, 2000.

We are concerned that the Service has not clearly articulated the criteria to be applied in deciding what costs it would recoup from the surcharge revenue. As of March 2000, the Service had not prescribed formal, written criteria for determining which of the costs that it is tracking are to be recouped from the surcharge revenue as contemplated by the act. Until the Service does this, it will be difficult to evaluate the appropriateness of the Service's criteria or to determine if the Service is consistently applying its criteria. Establishing formal written criteria is particularly important given that BCRS sales are scheduled to end shortly and that eight bills for additional semipostals have been introduced in Congress. Each of those bills contains the same language about recouping reasonable costs as the Stamp Out Breast Cancer Act does.

Cost of Developing and Selling the BCRS Is Unclear

The Postal Service reported its costs associated with developing and selling the BCRS, through December 31, 1999, to be \$5,921,000. The Service believed that these costs accounted for the bulk of BCRS costs. The \$5,921,000, however, does not include direct costs for items the Service determined to be inconsequential—e.g., minor accounting functions related to the BCRS, such as posting sales receipts to cashbooks in nonautomated offices. Additionally, the \$5,921,000 does not include indirect costs (overhead) which, according to postal officials, are also inconsequential. According to these officials, it was not cost-effective to spend the resources that would have been required to quantify and recoup inconsequential costs associated with the BCRS. As a result, it is not clear precisely how much it cost the Postal Service to develop and sell the BCRS.

Furthermore, the officials said there were no staff dedicated full-time to work on the BCRS, and no additional staff were hired because of the BCRS. According to these officials, all work associated with the BCRS was

absorbed by existing staff and staff budget—i.e., the Service incurred no additional staffing-related expenses because of the BCRS. They also told us the Service has not tracked staff hours devoted to the BCRS. The Service may also incur additional costs associated with the BCRS before its sales are scheduled to end on July 28, 2000.

The \$5,921,000 in BCRS costs includes \$488,000 in costs identified by OIG that had not previously been identified by the Service.⁵ In total, OIG had identified an additional \$836,000 in costs it believed were attributable to the BCRS.⁶ The Service agreed that \$488,000 of those costs were incurred exclusively on behalf of the BCRS program and included them in its reported costs. However, the Service disagreed that the remaining \$348,000 was attributable to the BCRS. As of March 31, 2000, the Service and OIG had not resolved their differences over the remaining costs. The \$348,000 in costs that the Service disagreed with consisted of about \$221,000 in advertising and promotion costs and about \$127,000 in labor costs. According to the Service, the approximately \$221,000 in disputed advertising and promotion costs were rental charges for a billboard in Times Square (New York, NY) that was used to promote commemorative stamps in general—not just the BCRS. OIG agrees that the billboard was rented to promote commemorative stamps but maintains that approximately \$221,000 was the BCRS' pro rata share of the total rental charges. The Service also disagrees with OIG that labor costs should be charged to the BCRS program because all work associated with the BCRS was absorbed by existing staff and staff budget. OIG maintains that labor costs are a part of the “other resources” identified in the act and should be included in BCRS costs.

We did not review the cost differences between the Service and OIG because we did not receive OIG's final report until early April 2000. However, to the extent that the remaining costs are attributable to the BCRS program, we believe they should be added to the total BCRS costs and reported by the Service.

According to postal officials, if the Service were to have tracked all monetary and other resources used in developing and selling the BCRS, it would have had to either (1) make substantive modifications to its existing

⁵ These costs consisted of (1) some advertising and promotion costs, (2) stamp design costs, and (3) packaging costs.

⁶ Details of additional costs are included in OIG's report (RG-AR-00-002) on the BCRS program, dated March 31, 2000. BCRS costs reported by OIG were about \$65,000 more than what we reported. This is due to differences in the cost items included and opinions regarding which costs to include in each cost item.

accounting systems or (2) establish a separate accounting system devoted exclusively to the BCRS. The Service believed, given that there may be no additional semipostals issued in the future, that it should not spend either the time or the money that these options would have required.

Consequently, in lieu of pursuing either of these options, the Service decided it would identify; track; or, as appropriate, estimate the costs in connection with 17 items that it believed would account for the bulk of the BCRS' cost. The initial list of 17 was subsequently expanded to 18 with the inclusion of legal fees associated with the BCRS. The 18 items and their reported costs, through December 31, 1999, are shown in table 1.

Table 1: Cost of Developing and Selling the BCRS, Through December 31, 1999, as Reported by the Postal Service

Cost item	Reported Cost
Stamp design	\$40,000
Shipping to stamp distribution offices/stamp distribution networks	\$0 ^a
Printing and manufacturing	\$2,100,000
Training	\$612,000
Rural training	\$0 ^b
Reprogramming window automation devices	\$352,000
Posting to cashbook (nonintegrated retail terminal)	\$0 ^a
Inventory costs	\$0 ^a
Destruction costs	\$0 ^a
Market research	\$56,000
Flyer cost	\$231,000
Advertising and promotion	\$1,505,000
Postage to Post Offices	\$0 ^a
Customer receipts	\$7,000
Packaging for self-service	\$989,000
Vending machine training costs	\$0 ^b
Vending machine reconfiguration	\$7,000
Legal fees	\$22,000
Total	\$5,921,000

^aThe Service considers these costs to be minimal and does not track them.

^bRural training and vending machine training costs are included in the cost item labeled training.

Source: U.S. Postal Service.

No Formal Criteria Established as of March 2000

The Stamp Out Breast Cancer Act requires that the Service prescribe regulations establishing, among other things, the criteria it would use for determining the reasonable costs to be recouped from the BCRS surcharge revenue. Section 2 of the act specifies, in part, that the Service is to recoup from the surcharge revenue "an amount sufficient to cover reasonable costs incurred by the Postal Service in carrying out this section, including those attributable to the printing, sale, and distribution of stamps under this section, as determined by the Postal Service under regulations that it shall prescribe." It is the view of the Service, and we agree, that because

the act modified the term “costs” with the term “reasonable” and empowered the Service to determine the costs and prescribe regulations, the Service has discretion to determine the reasonable costs attributable to the BCRS to be recouped from its surcharge revenue.

The act requires the Service to prescribe regulations governing its determination of reasonable costs to be recovered from the surcharge revenue, but the act does not specify a date by which the regulations are to be issued. In June 1998, shortly before the BCRS was issued, the Service issued a revision to its Administrative Support Manual that provided for the Service to track the bulk of its costs incurred in connection with the BCRS.⁷ The revision to the Administrative Support Manual further provided that the Service would make a decision at a later date as to which of these costs constituted the Service’s reasonable costs to be recouped from the BCRS’ surcharge revenue.⁸

Since revising the manual in June 1998, the Service has acknowledged several times that it has not yet prescribed the formal, written criteria it will use to determine the reasonable costs that will be recouped from the surcharge revenue. The Memorandums of Understanding the Service signed with NIH and DOD allow the Service up to 120 days after BCRS sales end on July 28, 2000, to make a final determination as to which costs will be recouped from the surcharge revenue. Also, the Service has sent letters to Members of Congress, as late as June 1999, stating that it had not yet determined what costs it would recoup from the surcharge revenue.

As of March 2000, the Service had not yet prescribed the regulations setting forth its definition of reasonable costs or articulated clearly the criteria it will apply in determining the costs to be recouped from the surcharge revenue.

⁷ Under 39 CFR 211.2, the Service states that the regulations of the Postal Service include the Administrative Support Manual.

⁸ In a report on the BCRS dated Sept. 30, 1998, OIG suggested to postal management that it identify and define what constitutes reasonable costs incurred in carrying out the act and develop a policy that incorporates that definition.

Informal Criteria Evolved Over Time and Were Not Always Consistently Applied

Although the Service had not prescribed formal, written criteria by the end of March 2000, it has used informal criteria for reviewing costs associated with the BCRS and making decisions as to what costs it will recoup from the BCRS' surcharge revenue. However, the Service's informal criteria have evolved over time, and our review of the Service's application of these criteria indicates that the Service has not consistently applied its informal criteria to all of the costs items it is tracking.

During the early months of BCRS sales, postal officials told us that the Service did not plan to recoup any of its costs from the surcharge revenue. We discussed this approach with postal officials and were later told that the Service had decided to recoup certain costs. We asked the officials what criteria the Service planned to use to recoup costs. They told us the Service planned to recoup costs unique to the BCRS that were above and beyond the costs normally incurred with a regular commemorative stamp for the 18 cost items listed in table 1. Using these cost items and the costs normally incurred with a regular commemorative stamp as its informal criteria, the Service, at our request, identified the costs that it was tracking that it considered to be unique to the BCRS and planned to recoup from the surcharge revenue. We reviewed the Service's application of its criteria and pointed out to the Service that it did not appear to have consistently applied its criteria to all 18 cost items. For example, we questioned, among other things, why \$1.5 million in advertising and promotion costs were not being recouped from the surcharge revenue, given that the Service does not normally spend money advertising and promoting regular commemorative stamps. After additional discussion, postal officials told us they had revised their informal criteria to reflect their plans to recoup costs unique to the BCRS that were above and beyond the costs normally incurred with a blockbuster commemorative stamp for the 18 cost items. Applying its revised criteria, they said that advertising and promoting is normally done with a blockbuster commemorative stamp, and these costs are recovered through the 33-cent First-Class postage rate.

Using the 18 cost items and the costs normally incurred with a blockbuster commemorative stamp as its informal criteria, we again asked the Service to review the cost items it was tracking to decide which costs should be recouped from the surcharge revenue. The Service applied its informal criteria to the \$5,921,000 in BCRS reported costs through December 31, 1999, and decided that \$482,000 of the costs were unique to the BCRS and should be recouped from the surcharge revenue. Postal officials said there may be some additional costs to be recouped before BCRS sales are scheduled to end on July 28, 2000.

Postal officials told us that the remaining \$5,439,000 in BCRS costs are common to a blockbuster commemorative stamp, and are recovered through the 33-cent First-Class postage rate. Therefore, the Service does not view these remaining costs as subject to recovery from the surcharge revenue. According to postal officials, the Service does not plan to recoup these remaining costs from the surcharge revenue because to do so would be double-charging. Table 2 identifies the unique costs the Service plans to recoup from the surcharge revenue.

Table 2: Costs Reported Through December 31, 1999, That the Service plans to Recoup from the BCRS Surcharge

Cost item	Reported Cost	Allocation of costs	
		Costs common to a blockbuster commemorative stamp	Costs recouped or to be recouped from surcharge revenue
Stamp design	\$40,000	\$40,000	
Shipping to stamp distribution offices/stamp distribution networks	\$0 ^a	\$0 ^a	
Printing and manufacturing	\$2,100,000	\$2,100,000	
Training	\$612,000	\$612,000	
Rural training	\$0 ^b	\$0 ^b	
Reprogramming window automation devices	\$352,000	\$176,000 ^c	\$176,000 ^d
Posting to cashbook (nonintegrated retail terminal)	\$0 ^a		\$0 ^a
Inventory costs	\$0 ^a	\$0 ^a	
Destruction costs	\$0 ^a	\$0 ^a	
Market research	\$56,000	\$56,000	
Flyer cost	\$231,000		\$231,000
Advertising and promotion	\$1,505,000	\$1,505,000	
Postage to Post Offices	\$0 ^a	\$0 ^a	
Customer receipts	\$7,000		\$7,000 ^d
Packaging for self-service	\$989,000	\$950,000 ^e	\$39,000 ^e
Vending machine training costs	\$0 ^b	\$0 ^b	
Vending machine reconfiguration	\$7,000		\$7,000
Legal fees	\$22,000		\$22,000 ^d
Total	\$5,921,000	\$5,439,000	\$482,000

^aThe Service considers these costs to be minimal and does not track them.

^bRural training and vending machine training costs are included in the cost item labeled training.

^cAutomated download did not work and changes had to be manually loaded. Because of this problem, one-half of the reprogramming cost was charged to the BCRS, and the remaining one-half was categorized as common to a blockbuster commemorative stamp.

^dThese costs had been recouped from the BCRS' surcharge revenue as of December 31, 1999.

^eThe cost of including a receipt in shrink-wrapped and cellophane stamp holders was determined to be unique to the BCRS. The remaining cost was determined to be common to a blockbuster commemorative stamp.

Source: U.S. Postal Service.

We reviewed the Service's application of its criteria to all of the cost items it is tracking. In the course of our review, we found three instances, totaling \$1,019,000, where the Service did not consistently apply its criteria.

The first instance involved the \$612,000 spent on training. Although postal officials acknowledged that the training in question was unique to the BCRS, they decided the costs should be considered part of routine operations covered by the 33-cent First-Class postage rate. They acknowledged that training has not been provided for other commemorative stamps, including blockbusters. However, they explained that their decision not to recoup the cost of training was influenced by their belief that the BCRS is similar to a new postal product, and postal employees receive training on all new products. The officials stated that the training provided on the BCRS took about 15 or 20 minutes to complete and was similar to the training provided on any new product. The officials said that had the training for the BCRS been more substantive, they would have decided to recoup the cost from the BCRS' surcharge revenue.

The second instance involved the \$176,000 spent on reprogramming window automation devices that the Service decided not to recoup from the surcharge revenue. The Service acknowledged that none of the total \$352,000 associated with reprogramming window automation devices would have been spent had it not been for the BCRS. However, the Service stated that because it ran into an unexpected computer reprogramming problem, which it considers to be its fault, it decided not to charge all of the reprogramming costs to the BCRS. Therefore, the Service decided that it would recoup one-half of the reprogramming costs from the surcharge revenue. The Service said it considered the other half to have been recovered through the 33-cent First-Class postage rate.

The third instance involved the \$231,000 spent on flyers. The Service acknowledged that it does not normally incur flyer costs with a blockbuster commemorative stamp. Nevertheless, the Service had initially

decided that in the case of the BCRS, it considered flyer costs to have been recovered through the 33-cent First-Class postage rate and therefore not to be recouped from the surcharge revenue. After we had additional discussions with the Service, officials agreed with us that the \$231,000 spent on flyers should be recouped from the BCRS surcharge revenue. Postal officials told us on March 16, 2000, that the Service plans to recoup these costs from the surcharge revenue before making the next transfers to NIH and DOD.

In the instances involving training and reprogramming window automation devices, postal officials said they stood by their decision not to recoup these costs from the BCRS surcharge revenue because they considered these costs to have been recovered through the 33-cent First-Class postage rate. However, postal officials provided no data or analysis showing whether or how BCRS costs were recovered through the 33-cent First-Class postage rate. These data and analysis are key to both establishing the appropriateness of the Service's decision regarding those costs to be recouped from the surcharge revenue and providing assurance that postal rate payers who have not purchased the BCRS are not involuntarily contributing funds to breast cancer research.

Effectiveness of the BCRS as a Fund-Raiser

The Stamp Out Breast Cancer Act did not provide quantitative measures for evaluating the effectiveness of the BCRS as a fund-raiser. However, the act provided that the BCRS would provide the public a voluntary and convenient way of raising funds for breast cancer research. To these ends, the BCRS has been successful—it is voluntary, convenient, and has raised millions for breast cancer research.

Because the act did not provide quantitative measures for evaluating the effectiveness of the BCRS, and historic comparisons were not possible because this is the first-ever U.S. semipostal, we developed what we believe to be reasonable measures of effectiveness. On the basis of the results of those measures, we believe the BCRS has been an effective fund-raiser.

First, as provided by the act, the BCRS has raised money for breast cancer research and at the same time has been voluntary and convenient. Second, key stakeholders, for the most part, viewed the BCRS as an effective fund-raiser. Third, the public's view of the BCRS was generally positive; and a majority of the adults responding to our public opinion survey expressed a desire to see more semipostals in the future for other special, nonpostal purposes. Finally, the BCRS' performance, compared to foreign semipostals, was mixed. The average monthly surcharge revenue

generated by the BCRS compared favorably with the foreign semipostals included in our survey, although it did not raise as much money as most foreign semipostals on a per capita basis.

The BCRS Is Voluntary and Convenient, and It Has Raised Millions for Research

The BCRS is voluntary and convenient, and it has raised millions of dollars for breast cancer research. As provided for by the act, purchasing the BCRS is to be voluntary and convenient. The BCRS is voluntary in that postal patrons may choose to purchase the BCRS for First-Class postage at 40 cents or purchase any of the Service's other, non-semipostal First-Class stamps at 33 cents. The BCRS is convenient in that it is widely available—e.g., it is to be available for purchase at all post offices and postal stores, from rural carriers and some postal vending machines, and at some special events. Additionally, our public opinion poll, conducted by ICR, showed that an estimated 68 percent of adults 18 years of age or older in the United States viewed semipostals as a convenient way to contribute to designated causes.

Also, as envisioned by the act, the BCRS has raised money for breast cancer research. As of December 31, 1999, 144.8 million BCRSs had been sold—generating \$10.8 million in surcharge revenue. The Postal Service projects that by the time sales are scheduled to end on July 28, 2000, about 194.8 million BCRSs will have been sold—generating about \$14.3 million in surcharge revenue. In accordance with the act, the surcharge revenue generated by the BCRS, less the Postal Service's reasonable costs, is to be transferred to NIH and DOD for breast cancer research.

Transfers of Surcharge Revenue to NIH and DOD for Breast Cancer Research

The act specifies that after deducting its reasonable costs, the Service is to transfer 70 and 30 percent of the remaining surcharge revenue generated by the BCRS to NIH and DOD, respectively. The act further specifies that such transfers are to be made at least twice yearly under arrangements as agreed to between the Service and those agencies. The specifics regarding these transfers are contained in Memorandums of Understanding (MOU) signed by NIH, DOD, and Postal Service officials. Under the MOUs, the Postal Service will make five transfers to NIH and DOD at specified times. To date, the Service has complied with the requirements in the act and MOUs regarding the transfers of surcharge revenue to NIH and DOD for breast cancer research.

Table 3 shows, as of December 31, 1999, the three transfers that have been made since the BCRS was issued in July 1998.

Table 3: Transfers Made to NIH and DOD for Breast Cancer Research as of December 31, 1999

Date of transfer	Amount transferred to NIH (dollars in millions)	Amount transferred to DOD (dollars in millions)	Total transferred to NIH and DOD (dollars in millions)
November 2, 1998	\$1.9	\$0.8	\$2.7
April 15, 1999	2.3	1.0	3.3
November 1, 1999	1.9	0.8	2.7
Total	\$6.1	\$2.6	\$8.7

Source: U.S. Postal Service.

The fourth transfer is to be made on or before April 15, 2000. This transfer to NIH and DOD, per the MOUs, will be 50 percent of the surcharge revenue available at that time. A final transfer, which is intended to include the available balance (i.e., surcharge revenue less reasonable costs) in connection with the fourth transfer, as well as any other amounts that are available, is to be made within 120 days after stamp sales are scheduled to end on July 28, 2000.

As of December 31, 1999, the Service had recouped \$205,000 from the surcharge revenue generated by the BCRS to cover certain costs associated with developing and selling the BCRS. The Service did not recoup any of its costs before making the November 2, 1998, transfers to NIH and DOD. However, the Service recouped \$183,000 from the BCRS' surcharge revenue before making the second transfers to NIH and DOD. The \$183,000 was to cover the cost of printing customer receipts and one-half of the cost associated with reprogramming window automation devices. The Service also recouped \$22,000 for legal expenses before making the third transfers. The Service plans to recoup \$277,000 before making final transfers to NIH and DOD to cover the costs of reconfiguring vending machines, flyers, and including a receipt in shrink-wrapped and cellophane stamp holders. The total amount of costs recouped as of December 31, 1999, plus the additional \$277,000, totals \$482,000.

Key Stakeholders Believe the BCRS Has Been an Effective Fund-Raiser

The key stakeholders we talked with that expressed a view regarding the effectiveness of the BCRS believed it had been effective in raising funds for breast cancer research. Some of the stakeholders that chose not to express a view on the effectiveness of the BCRS offered other comments concerning semipostals.

Key Stakeholders That Expressed the View That the BCRS Has Been an Effective Fund-Raiser

Key stakeholders expressing the view that the BCRS was an effective fundraiser included the Postal Service, the Susan G. Komen Breast Cancer Foundation, and Dr. B. I. Bodai.

According to postal officials, a number of indicators support the Service's belief that the BCRS has been an effective fund-raiser. First, and most notably, is the estimated \$14.3 million in surcharge revenue that the BCRS is expected to generate. Second are the additional printings of the BCRS that had to be done based on inventory reductions at the stamp distribution offices. Third is the Gold "REGGIE" award the Service received from the Promotion Marketing Association for its efforts in promoting the BCRS. Fourth is the fact that sales of the BCRS compare favorably with the sales of some of the Service's most popular commemorative stamps.

Dr. B. I. Bodai and the Susan G. Komen Breast Cancer Foundation also believe the BCRS has been an effective fund-raiser. The Susan G. Komen Breast Cancer Foundation stated that the BCRS has been an effective program because it has been a unique and innovative fund-raising tool and has enhanced breast cancer awareness on a global scale. Dr. Bodai believes the BCRS has been an effective fund-raiser primarily on the basis of the amount of money the BCRS raised for breast cancer research. However, Dr. Bodai stated that BCRS sales would have been even higher had the Postal Service and breast cancer organizations promoted it more heavily.

Comments Made by Other Key Stakeholders on Semipostals as Fund-Raisers

The National Breast Cancer Coalition (NBCC) believes there are more effective ways of raising money for research than using semipostals. NBCC believes that effectively lobbying Congress holds the most promise for raising significant amounts of research money. NBCC officials were also concerned (1) that the BCRS' administrative and advertising costs could be high in relation to the total surcharge revenue generated by the BCRS, (2) about how the Service would treat BCRS administrative and advertising costs, and (3) about whether future semipostals would be treated the same way.

American Cancer Society officials said it is too early to label the BCRS as either effective or ineffective. The officials said their primary concern has always been that funds generated by the BCRS should never be used to supplant appropriated dollars for breast cancer research. The officials said they support the BCRS as long as it does not take momentum away from federal funding for breast cancer research or adversely affect fund-raising organizations' ability to raise research funds. The officials said they have seen no evidence, to date, to suggest that any of these concerns have materialized.

The Curator of the Smithsonian Institution's National Philatelic Collection said semipostals are effective fund-raisers in many European countries, and he sees no reason why that experience cannot be duplicated within the United States. He believes that the Service, by participating in fund-raising activities, enhances its public image.

The American Philatelic Society does not believe the true cost of the BCRS will ever be known; therefore, it believes that any evaluation of effectiveness will always be subjective, at best. The Society does not believe the Service is equipped to track all of the costs associated with developing and selling the BCRS. Although the Society actively supports breast cancer research, it is opposed to semipostals regardless of the cause. It views semipostals as a tax on its members' hobby.

Survey Respondents View Semipostals in a Positive Light

To determine the public's awareness of the BCRS and its view of semipostals in general, we included pertinent questions in our survey of adults 18 years of age or older in the continental United States, which was conducted by ICR. Although most respondents to our public opinion poll were not aware of the BCRS 1 year after it was issued, the public, in general, viewed semipostals in a positive light.

About 24 percent of the survey participants responded that they were aware of the BCRS prior to our inquiry—which occurred 1 year after it was issued. About 29 percent of the female and about 18 percent of the male respondents were aware of the BCRS.

Most respondents were enthusiastic about semipostals in general. About 65 percent of the survey respondents said they would like to see the Postal Service issue, on a recurring basis, more semipostals to raise money for other special, nonpostal purposes.

The BCRS Compared Favorably With Foreign Semipostals in Some, But Not All, Respects

The average monthly surcharge revenue generated by the various semipostals included in our survey varied considerably. In terms of the average monthly surcharge revenue generated, the BCRS raised more money for its designated beneficiary than most of the foreign semipostals that provided us information. However, when the population size of the host country was factored into the analysis, the BCRS' monthly surcharge revenue, per million population, was less than the surcharge revenue generated by most of the other semipostals. In terms of the percent of total surcharge revenue generated that was transferred to the semipostal's designated beneficiary, the BCRS, as of December 1999, compared favorably with the foreign semipostals.

Comparison of Sales of BCRS With Foreign Semipostals

In terms of average monthly surcharge revenue generated, the BCRS outperformed 7 of the 12 foreign semipostals for which we received information. However, when the monthly sales data were adjusted to account for differences in population size of the host country, the BCRS did not fare as well as most of the other semipostals. The BCRS outperformed the four semipostals issued by the postal administrations in Canada and Belgium but did not perform as well as the eight semipostals issued by the postal administrations in Austria, New Zealand, The Netherlands, and Germany. The results of this analysis are shown in table 4, with the semipostals ranked from highest to lowest in terms of average monthly surcharge revenue per million population.

Table 4: Average Monthly Surcharge Revenue Generated and Average Monthly Surcharge Revenue per Million Population for the 13 Semipostals Included in Our Survey

Host country ^a / semipostal	Average monthly surcharge revenue ^b	Population of host country (in millions)	Average monthly surcharge revenue per million population ^c
Austria/Philately	\$509,622	8.1	\$62,916
The Netherlands/Children	980,569	15.7	62,457
Germany/Youth	1,475,935	82.1	17,977
Germany/Welfare 1	1,328,065	82.1	16,176
Germany/Welfare 2	1,101,432	82.1	13,416
Germany/Sports	1,031,722	82.1	12,567
The Netherlands/Elderly	128,976	15.7	8,215
New Zealand/Children's Health	10,678	3.8	2,810
U.S./Breast Cancer Research	684,644	274.0	2,499
Belgium/Philately	17,844	10.1	1,767
Belgium/Sports	16,144	10.1	1,598
Canada/Literacy	48,773	30.6	1,594
Belgium/Solidarity	4,390	10.1	435

^aThe United Kingdom and Sweden did not provide sales data on their semipostals but reported sales were low.

^bAfter converting sales data reported in foreign currencies to U.S. dollars and adjusting the data to 1999 dollars, we computed the average monthly surcharge revenue generated for each semipostal by dividing its adjusted sales data by the number of months covered by the reported sales (i.e., if the reported sales were generated over a 12-month period we divided the adjusted sales data by 12). We used the first 12 months of sales for the BCRS for comparison purposes because none of the foreign postal administrations reported sales covering a period longer than 12 months. We made the conversions in November 1999 using the exchange rates for the relevant years from the Federal Reserve Bulletin and adjusted to 1999 dollars using the Gross Domestic Product (GDP) price index from the Department of Commerce.

^cTo compute the average monthly surcharge revenue per million population, we divided the adjusted average monthly surcharge revenue generated by the 1998 population of the host country as reported by the Population Division, Department of Economic and Social Affairs, United Nations.

Source: Selected postal administrations, United Nations, and GAO calculations.

In comparing the performance of semipostals, we recognize that the population size of the host country is not the only factor that affects sales. Other factors, such as tradition, the subject matter of the semipostal and its beneficiary, the method used to promote sales, the amount of the surcharge, sales techniques, and other factors may also influence how well a particular semipostal sells. For example, The Netherlands had two semipostals—one to benefit children and the other to benefit the elderly. The sales methods differed greatly for these two semipostals. Although both semipostals were sold in post offices, school children also sold the children’s semipostal door-to-door. The result was that the average monthly sales of the semipostal for children were seven times greater than sales of the semipostal for the elderly. We were not able to adjust the data to account for such differences as sales techniques; however, in appendix II, we discuss factors that might affect sales of semipostals.

Percent of Total Surcharge Revenue Turned Over to Designated Beneficiary for the Semipostals Included in Our Survey

Thus far, the BCRS compares favorably with the foreign semipostals included in our survey in terms of the percent of total surcharge revenue turned over to the designated beneficiary after the costs borne by the semipostal for its development and sale are deducted. For the 13 semipostals included in table 4, the percentages ranged from a low of 71.51 to 100 percent. Two postal administrations—Canada and New Zealand—did not withhold any surcharge revenue to recover costs. To date, the U.S. Postal Service has recouped 2.33 percent of the surcharge revenue generated by the BCRS to cover certain costs. Table 5 shows the percent of surcharge revenue that the postal administrations reported transferring to designated beneficiaries, ranked from highest to lowest.

Table 5: Percent of Total Surcharge Revenue Reported as Being Transferred to the 13 Semipostals’ Designated Beneficiaries

Host country^a/semipostal	Percent of total surcharge revenue transferred to designated beneficiary
New Zealand/Children’s Health	100.00
Canada/Literacy	100.00
Germany/Youth	98.00
Germany/Welfare 1	98.00
Germany/Welfare 2	98.00
Germany/Sports	98.00
U.S./Breast Cancer Research	97.67 ^b
The Netherlands/Children	93.85
The Netherlands/Elderly	85.00
Belgium/Philately	80.30
Belgium/Sports	79.64
Belgium/Solidarity	75.89
Austria/Philately	71.51

^aThe United Kingdom and Sweden did not provide data on the percentage of surcharge revenue withheld to cover costs.

^bThis percentage was based on the transfers made to NIH and DOD and the amounts deducted from the BCRS' surcharge revenue as of December 31, 1999.

Source: U.S. Postal Service and foreign postal administrations that responded to GAO survey.

Foreign Postal Administrations Had Differing Views on the Effectiveness of Semipostals as Fund-Raisers

The foreign postal administrations included in our survey differed in their views on the effectiveness of their semipostals as fund-raisers. Five of the eight foreign postal administrations responding to our request for information considered semipostals to be effective fund-raisers, and three did not. Postal administrations in Belgium, Germany, The Netherlands, New Zealand, and Sweden rated semipostals as either very effective or somewhat effective fund-raisers. Postal administrations in Austria, Canada, and the United Kingdom rated semipostals as either very ineffective or somewhat ineffective fund-raisers. Those rating semipostals as ineffective generally attributed the reasons to public and postal employee dislike of semipostals. In general, they said the public does not like to pay more for a stamp than necessary, especially when there is no option as to the recipient of the surcharge. They reported that some postal employees dislike semipostals because they have to deal with the negative public reactions to semipostals. Although the Austrian postal administration considers semipostals to be very ineffective fund-raisers because of opposition from philatelists, it continues to issue them annually at the direction of its legislative body. Sweden, on the other hand, considers semipostals to be somewhat effective fund-raisers but decided not to issue any more semipostals because of negative public reaction.

Appropriateness of Using Semipostals as a Means of Fund-Raising

The appropriateness of using semipostals as a means of fund-raising has been somewhat controversial. The Postal Service has, historically, been opposed to raising revenue for purposes other than the maintenance of the mail delivery system. In a 1997 letter to a Member of Congress, former Postmaster General Marvin Runyon stated his belief that issuing a special "hybrid" stamp to raise money for breast cancer research would "...open the floodgates for all worthy social causes." Since the act was passed, there have been eight additional bills calling for semipostals to raise funds for special, nonpostal purposes. Thus far, none of these bills have been enacted into law. According to postal officials, the Service supports the BCRS and is striving to make it a success. However, the officials said the Service remains, in principle, opposed to issuing any more semipostals to raise money for special, nonpostal purposes.

Although the Service is generally opposed to semipostals, the public and most of the key stakeholders we spoke with believed that it was appropriate for the Service to issue the BCRS. They also believed that it was appropriate for the Service to issue other semipostals in the future to

raise funds for special, nonpostal purposes—although there are some who do not share that opinion. Stamp collectors, for example, generally oppose semipostals, viewing them as an additional tax on their hobby. The eight foreign postal administrations that responded to our survey were evenly split regarding whether or not it is appropriate for their countries to use semipostals to raise funds for nonpostal purposes.

The Stamp Out Breast Cancer Act gave the Postal Service specific authority to issue the BCRS. However, we do not believe that the Postal Service has the authority to issue the BCRS, or any other semipostal, on its own volition without specific legislation authorizing it to do so.

Opinions of the Postal Service, Key Stakeholders, and Others Regarding Appropriateness

The Postal Service stated that although it supports the BCRS, it is opposed, in principle, to using the Service to raise funds for special, nonpostal purposes. Consequently, postal officials said that as a general rule, they are opposed to semipostals.

Our public opinion survey indicated that most respondents believed it was appropriate for the Postal Service to issue semipostals, as did most of the key stakeholders we spoke with. There were, however, some that opposed semipostals. The foreign postal administrations that responded to our survey were evenly split on the question of the appropriateness of their countries using semipostals to raise funds for special, nonpostal purposes.

Views of Postal Service and Other Key Stakeholders

The Postal Service has, historically, opposed semipostals. Its position has been that because the United States already had a philanthropic tradition unmatched by other nations, semipostals would be perceived as yet another solicitation and a public intrusion in an area where private initiative and generosity have had very beneficial results. Further, the Service believed that if it were required to routinely issue semipostals, it might be placed in the difficult, uncomfortable position of determining which organizations should have a semipostal and which should not.

Initially, the Postal Service strongly opposed legislation directing it to issue the BCRS. Its position was that its basic mission is universal mail service, and it would be inappropriate for it to raise revenue for purposes other than the maintenance of a national mail delivery system. As noted by former Postmaster General Marvin Runyon in a 1997 letter to a Member of Congress, the Service feared that a semipostal breast cancer research stamp "...would open the floodgates for all worthy social causes...and that in very short order, (it) would find itself devoting considerable time and expense as a fund raiser." The Service did not believe that was its role and did not think it should be.

Nevertheless, postal officials told us that because Congress expressed itself so strongly through the Stamp Out Breast Cancer Act, the Service decided to enthusiastically support and promote the BCRS program. However, the officials stated that the Service's position on semipostals, in principle, remains the same. The Postmaster General (PMG) stated, in commenting on a draft of this report, that the Service will continue to enthusiastically promote the BCRS throughout the remainder of the sales period, and the Service has been pleased and gratified by the success of the BCRS in raising funds for breast cancer research. Nevertheless, he stated that it remains the Service's position that Congress should not, at this time, enact legislation mandating additional semipostal stamps. He cited three reasons for the Service's position. First, the Service believes that fund-raising through the sale of semipostals is an activity outside the scope of the Service's mission as defined by the Postal Reorganization Act. Second, the popularity of the BCRS does not ensure the success of future semipostals, and it is possible that future semipostals might generate only modest amounts of revenue while still requiring substantial postal expenditures. Third, enacting legislation creating more semipostals would put Congress in the difficult position of having to choose, from among many worthy causes, which organizations would get a semipostal stamp.

Regardless of the Postal Service's general position against semipostals, however, since the act was passed, eight additional bills have called for special semipostals to raise funds for (1) AIDS research and education, (2) Alzheimer's disease research, (3) diabetes research, (4) domestic violence programs, (5) emergency food relief within the United States, (6) highway-rail grade crossing safety, (7) organ and tissue donation awareness, and (8) prostate cancer research. Thus far, none of these bills have been enacted into law.

Most of the other key stakeholders we spoke with believed that it was appropriate for the Postal Service to issue the BCRS and that it would be appropriate for the Service to issue other semipostals in the future to raise funds for special, nonpostal purposes. However, there were some stakeholders who did not share that opinion.

The American Cancer Society supported the Stamp Out Breast Cancer Act and did not believe it to be inappropriate for the Postal Service to issue the BCRS. Society officials stated that the Society has participated with the Postal Service at several fund-raising events where the BCRS was promoted and has used the BCRS to mail some of its own correspondence. The officials also noted that in December 1998, the Society and Senator Dianne Feinstein sent a joint letter to Fortune 1000 companies

encouraging them to promote the BCRS. The only concern the officials expressed about the BCRS was that Congress not use revenues from it to supplant appropriations to NIH and DOD for breast cancer research—even though the act stated that it was the sense of Congress that enactment of the Stamp Out Breast Cancer Act should not cause this to happen. The officials felt strongly that the surcharge revenue from the BCRS should be used to supplement, not supplant, appropriations for breast cancer research.

The Susan G. Komen Breast Cancer Foundation believed the BCRS was appropriate and fully supported it. The Foundation stated that eradicating breast cancer should be a national priority and will take a collaborative effort between public and private stakeholders. It felt that the BCRS was a good example of a public initiative with widespread public support.

Dr. B.I. Bodai believed that using semipostals for worthy, nonpostal causes—such as breast cancer research—is very appropriate. Dr. Bodai stated that using a public organization, such as the Postal Service, to help raise funds for research to eliminate diseases, such as breast cancer, is an example of what good government is all about.

The Curator of the Smithsonian Institution's National Philatelic Collection said he believed that legislation directing the Postal Service to issue the BCRS was very appropriate. He said the BCRS was good for the Nation, good for NIH and DOD, and good for the Postal Service in that it helps bolster the public's opinion of the Service. He cautioned, however, that other charities would soon be asking Congress for semipostals, possibly leading to a wave of new legislation. He suggested that one possible solution to control and deal fairly with this situation would be to have the Postal Service's Citizen's Stamp Advisory Committee select one applicant per year for a semipostal.⁹

NBCC reserved judgment on the appropriateness of the BCRS. Although NBCC did not take an official position on the legislation creating the BCRS, NBCC officials said that at the time the legislation was being considered, NBCC had some reservations. For example, some members of NBCC's Board of Directors were concerned that Congress might substitute revenues from the BCRS for appropriations for breast cancer research—

⁹ The Citizens' Stamp Advisory Committee is a group of individuals (nonpostal employees) appointed by the Service to review suggestions for postage stamp subjects and to recommend those subjects to be adopted for postage stamps and postal stationery. The Committee, which meets several times a year, includes artists, historians, educators, and philatelists with backgrounds related to the subjects and stamp designs.

especially appropriations to DOD. Some Board Members were also concerned that the BCRS might be more of a symbolic gesture, on Congress' part, than an all-out commitment to fund whatever research is needed to eradicate breast cancer in the shortest possible time.

The president of the American Philatelic Society stated that the Society fully supports efforts to raise money for breast cancer research but opposes the use of semipostals. In a July 30, 1997, letter to President Clinton, the former president of the Society encouraged the President to veto the legislation creating the BCRS. The letter acknowledged the Society's full support of efforts to promote breast cancer awareness and noted that the Society had recently teamed with a breast cancer organization to raise funds for breast cancer research. However, the letter went on to explain that the Society's objections to semipostals have nothing to do with opposition to worthwhile charitable causes, but to what the Society's members see as a tax that falls disproportionately and unfairly on their hobby.

The American Philatelic Society also opposed the BCRS because it believed that allowing even one semipostal to be issued would establish a precedent and that many more semipostals would follow. The president of the American Philatelic Society said he was particularly concerned that the BCRS not usher in a return to the days before the creation of the Citizens' Stamp Advisory Committee, when the content of the American stamp program was heavily influenced by the political process through congressional direction of stamp subjects. However, he said that if a fair process could be designed in which no more than two semipostals would be chosen per year, he believed stamp hobbyists could live with that process. Finally, the Society was concerned that the Postal Service might not have an efficient system for tracking the administrative costs associated with developing and selling semipostals. It believed that if the Postal Service were unable to accurately identify and fully recoup its administrative costs, those costs would be, in effect, subsidized by postal patrons. The Society believes that as a matter of principle, American stamp collectors prefer to make their own choices about charities to which they give their money.

The Public's View

The ICR survey indicated that an estimated 71 percent of adults 18 years of age or older in the continental United States believe it is appropriate to use semipostals issued by the Postal Service, such as the BCRS, to raise funds for nonpostal purposes. Twenty-six percent of respondents thought it was somewhat inappropriate or very inappropriate. The remaining 3 percent

had no opinion, said they didn't know, or said it would depend on the cause for which the semipostal was being used to raise money.

Of those respondents who thought it inappropriate for the Postal Service to issue semipostals, 40 percent said the Postal Service/federal government shouldn't be doing fund-raising. Eighteen percent thought people should contribute to a charity of their own choosing. Fifteen percent were not sure funds raised by a semipostal would be distributed appropriately or to the charities most in need. Nine percent thought the Postal Service should not issue semipostals because postage is already expensive enough. The remaining respondents who did not think the Postal Service should be issuing semipostals offered varying reasons, such as (1) a concern that the elderly would be confused or misled by semipostals and (2) a belief that research should be conducted through government grants or other means besides semipostals.

Foreign Postal Administrations' Views

The eight foreign postal administrations that responded to our survey were evenly split on the question of the appropriateness of their countries using semipostals to raise funds for special, nonpostal purposes. The postal administrations of Germany, The Netherlands, Belgium, and New Zealand believed that it is appropriate to use semipostals to raise funds for nonpostal purposes. Conversely, the postal administrations of Austria, Canada, the United Kingdom, and Sweden believed it was inappropriate to use semipostals to raise funds for nonpostal purposes. (See table 6.)

Table 6: Appropriateness of Semipostals

"Based on your postal administration's experience, how appropriate or inappropriate is it to use semipostal stamps to raise funds for nonpostal purposes?"

Foreign postal administration	Very appropriate	Somewhat appropriate	Neither appropriate nor inappropriate	Somewhat inappropriate	Very inappropriate
Austria					•
Belgium		•			
Canada				•	
Germany	•				
United Kingdom					•
The Netherlands	•				
New Zealand		•			
Sweden				•	

Source: Foreign postal administrations that responded to GAO survey.

The United Kingdom and Sweden have permanently discontinued the sales of semipostals, and Canada does not currently have any semipostals for sale—although it has not ruled out selling them at some future date. The

United Kingdom and Sweden both noted that semipostals were discontinued because they were not popular with the public or the postal administration. The Canadian postal administration believed it to be inappropriate to sell semipostals because Canadians are resistant to paying more for stamps and would rather give directly to charities of their choice. Austria's postal administration believed it to be inappropriate to sell semipostals because philatelists consider the surcharge to be a tax on their hobby. Nevertheless, the Austria postal administration continues to sell semipostals at the direction of its legislative body.

Statutory Authorities and Constraints

The Postal Service had clear, specific statutory authority to issue the BCRS under the Stamp Out Breast Cancer Act. However, to help address the issue of the appropriateness of using the Service, and semipostals in general, as a means of fund-raising, we reviewed the Service's underlying legal authority to carry out its mission. In addition, we requested the views of the Service on this matter.

There is no express legal authority for the Service to issue semipostals or to conduct its operations for charitable fund-raising purposes other than under the Stamp Out Breast Cancer Act. The Service stated that it undoubtedly has the authority to sell stamp products with retail prices exceeding their postage or face value. However, the Service further stated that it is unclear whether it has the authority to sell a particular stamp with a retail price exceeding its postage value and designate the differential revenue for charitable purposes. We do not believe that the Service's enabling legislation can be interpreted as providing the Service with such authority in the absence of express statutory authority for it to do so.

Under section 404 of Title 39 of the United States Code, the Postal Service has broad authority to "provide and sell postage stamps" and to "provide philatelic services." According to the Postal Service, section 404 provides the Service with the authority to issue stamp products at any given value, regardless of the applicable First-Class Mail rate, and to sell stamp products with a retail price exceeding their postage or face value. This is the case with philatelic products and stamped cards, e.g., a post card with a BCRS cancelled on the first day of issue.

In the absence of express statutory authority to issue semipostals, the Postal Service states that it is unclear whether selling a particular stamp with a retail price exceeding its postage value, and making a firm representation to the public that the "differential"/surcharge revenue would be donated to a charitable cause, would be consistent with 39 U.S.C. 3621. Section 3621 provides that postage rates and fees "shall provide

sufficient revenues so that the total estimated income and appropriations to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service.” According to the Postal Service, it is unclear whether the Service could, in advance of the close of a given fiscal year, publicly commit to setting aside a portion of the revenues from the sale of a particular semipostal for charitable purposes, particularly if the Service’s other operating expenses exceed operating revenues in a given year.

In our view, the Service does not have the authority to issue semipostals in the absence of specific authorizing legislation. Under 39 U.S.C. 3261, rates of postage the Postal Service is authorized to charge should “equal as nearly as practicable the total estimated costs of the Postal Service.” That language is not consistent, in our view, with setting postage rates for a particular stamp at an amount that is intended to generate excess revenues that would be used for charitable purposes.

Further, the Service’s authority under 39 U.S.C. 401 (3) to “determine the character of, and necessity for, its expenditures” does not in our view provide it with the authority to make charitable contributions. Although such authority, similar to the authority often provided to government corporations, may provide the Postal Service with greater discretion than is provided to ordinary executive branch agencies, such discretion is not unlimited. In the absence of specific authority to make charitable contributions, the Postal Service can only do so, in our view, if it can reasonably determine that such contributions are a necessary expense to help it perform its statutory mission. The Postal Service has not made such an argument, nor are we aware of any possible basis to support the view that making charitable contributions would help the Service carry out its mission.

Conclusions

The Stamp Out Breast Cancer Act did not provide quantitative measures for evaluating the effectiveness of the BCRS as a fund-raiser. The act provides that the BCRS would be convenient and voluntary and would raise money for breast cancer research. On the basis of the fact that the BCRS has successfully met these three measures and generally met the additional measures we developed to evaluate effectiveness, we would conclude that overall, the BCRS has been an effective fund-raiser. Additionally, the public and most key stakeholders we spoke with believed that it was appropriate to use semipostals issued by the Postal Service to raise funds for nonpostal purposes.

The act required that the Service prescribe regulations setting forth the criteria it would use to determine the reasonable costs to be recouped

from the BCRS' surcharge revenue. The act provided the Service flexibility to accomplish this task and did not specify a date by which the regulations should be issued.

We are concerned that the Service has not clearly articulated the criteria to be applied in deciding what costs it would recoup from the surcharge revenue. As of March 2000, the Service had not issued formal, written criteria to determine which of the BCRS costs it was tracking would be recouped from the surcharge revenue as contemplated by the act. The Service's informal criteria for determining the costs to be recouped from the surcharge revenue have evolved over time and have not been consistently applied. For example, the latest informal criteria the Service used were the costs normally incurred with a blockbuster commemorative stamp for the 18 cost items. However, the Service deviated from its criteria when it decided not to recoup all of the costs unique to the BCRS from the surcharge revenue. Rather, the Service has said that it will recoup \$482,000 from the surcharge revenue. Although postal officials said they considered all other costs to have been recovered through the 33-cent First-Class postage rate, they provided no data or analysis showing that these costs have been recovered. Understanding what criteria the Service is applying as well as the data or analysis underlying its recovery decisions are key to establishing the appropriateness of the Service's decision regarding those costs to be recouped from the surcharge revenue. Moreover, this information is essential to providing postal rate payers, who have not purchased the BCRS, assurance that they are not involuntarily contributing funds to breast cancer research.

We recognize that the act provides the Service with the discretion to establish reasonable criteria for determining the BCRS costs to be recouped from the surcharge revenue. However, until such time that the Service prescribes formal, written criteria and consistently applies those criteria to all BCRS costs, it is difficult for Congress, us, and others to evaluate how well the Service is implementing its legislative mandate to recoup reasonable costs. The Service's failure to prescribe formal, written criteria also makes it difficult for Congress to determine whether it believes the Service's criteria are appropriate. The need to prescribe formal, written criteria as soon as possible is particularly acute given that the Service's actions are potentially precedent-setting, and eight bills have been introduced in Congress that would mandate additional semipostals. Each of those bills contains the same language as the BCRS act about recouping reasonable costs.

Matters for Consideration by Congress

If Congress decides that the Postal Service is not recouping its reasonable costs associated with the BCRS, Congress may wish to consider (1) amending the Stamp Out Breast Cancer Act to specify any additional costs associated with the BCRS that the Postal Service must recoup, and (2) in any future semipostal legislation, specifying the explicit criteria the Service should use in determining costs to be recouped from the semipostal's surcharge revenue.

Recommendations

We recommend that the Postmaster General

- promptly issue regulations that clearly state the Service's criteria for determining which costs are to be recouped from the BCRS surcharge revenue and ensure that the criteria are consistently applied to all cost items associated with the BCRS, and
- direct postal management to make available the data and analysis showing which BCRS costs have been recovered through the 33-cent First-Class postage rate to provide assurance that postal ratepayers are not involuntarily contributing funds to breast cancer research.

Agency Comments and Our Evaluation

In commenting on a draft of this report, in a letter dated April 11, 2000, the PMG stated that the Service concurred with the report's findings and recommendations. In responding to our conclusion that the Service had not clearly articulated the criteria to be applied in deciding what costs it would recoup from the BCRS' surcharge revenue, the PMG stated that it is the Service's intent to recoup, from the surcharge revenue, those costs that are over and above the costs normally incurred with the development and sale of blockbuster commemorative stamp issues or new postal products. The PMG further stated that the Service will issue final regulations formalizing its cost recovery criteria by the time BCRS sales are scheduled to end on July 28, 2000, and will apply those criteria to all identified BCRS costs before making the last transfers of surcharge revenue to NIH and DOD. We believe these actions, if properly implemented, should satisfy our recommendation that the PMG promptly issue regulations that clearly state the Service's criteria for determining which costs are to be recouped from the BCRS surcharge revenue and ensure that the criteria are consistently applied to all cost items associated with the BCRS. Issuance of these criteria is particularly important in view of the currently pending legislative proposal to extend the sales period for the BCRS.

In response to our recommendation that the Service make available the data and analysis showing which BCRS costs have been recovered through the 33-cent First-Class postage rate, the PMG stated that the Service

intends to provide that information to its congressional oversight committees within 60 days after the end of the BCRS sales period. The PMG noted that the Service's 1998 and 1999 Cost and Revenue Analysis (CRA) reports, which contain data that are audited annually and used as a basis for the Service's rate cases, provide information on the costs of items covered by the First-Class postage rate. On the basis of discussions with the Postal Service, however, we believe that the CRA reports lack the specificity and detail to allow interested parties to clearly see which BCRS costs have been recovered through the 33-cent First-Class postage rate. Although these reports may be useful for making cost determinations regarding First-Class postage in general, we are concerned that they lack detailed cost information on a stamp-by-stamp basis. Therefore, we believe that any data and analysis the Service makes available should be specific to the BCRS and sufficiently detailed to allow interested parties to clearly see which BCRS costs have been recovered through the 33-cent First-Class postage rate.

The PMG stated that the Service will continue to enthusiastically promote the BCRS throughout the remainder of the sales period, and the Service has been pleased and gratified by the success of the BCRS in raising funds for breast cancer research. Nevertheless, he stated that it remains the Service's position that Congress should not, at this time, enact legislation mandating additional semipostals. He cited three reasons for the Service's position. First, the Service believes that fund-raising through the sale of semipostals is an activity outside the scope of the Service's mission as defined by the Postal Reorganization Act. Second, the popularity of the BCRS does not ensure the success of future semipostals, and it is possible that future semipostals might generate only modest amounts of revenue while still requiring substantial postal expenditures. Third, enacting legislation creating more semipostals would put Congress in the difficult position of having to choose, from among many worthy causes, which organizations would get a semipostal.

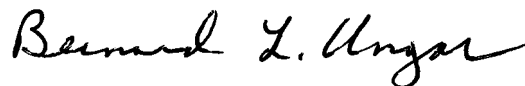
We agree with the Postal Service that the sale of semipostals is outside the scope of the Service's mission as defined by the Postal Reorganization Act. As discussed in our report, we do not believe the Service has the authority to issue semipostals on its own volition without specific legislation authorizing it to do so. We also agree that the success of the BCRS may not predict success for other semipostal issues, and that choosing beneficiaries for semipostals from among many worthy causes will be difficult. Although these concerns are valid, they need to be considered, along with the potential benefits, as Congress deliberates additional semipostals.

Although the Stamp Out Breast Cancer Act gave the Service the specific authority to issue the BCRS, it was silent with regard to the appropriateness of the Service issuing additional semipostals for other causes. However, we also discuss the views of key stakeholders, including the public; and most of the key stakeholders believe it is appropriate to use semipostals issued by the Service to raise funds for nonpostal purposes. Since the BCRS was issued, eight bills have been introduced to authorize additional semipostals. The information in this report should be useful as Congress deliberates these bills.

The PMG provided updated BCRS sales information as of March 24, 2000, and stated that he concurred with the matters identified in our report for congressional consideration. He also stated that Congress might wish to clarify its intent on the tax-deductibility of the surcharge as a charitable contribution by postal patrons by enacting specific legislation for that purpose. His comments are reproduced in appendix III.

We are sending copies of this report to Representative Michael Bilirakis, Chairman, and Representative Sherrod Brown, Ranking Minority Member, Subcommittee on Health and Environment, House Committee on Commerce; and to Representative Christopher Shays, Chairman, and Representative, Rod R. Blagojevich, Ranking Minority Member, Subcommittee on National Security, Veterans' Affairs, and International Relations, House Committee on Government Reform because of their involvement in the passage of the act. We are also sending copies of this report to Senator Dianne Feinstein and Representative Charles F. Bass because of their expressed interest in the BCRS; Mr. William J. Henderson, Postmaster General and Chief Executive Officer, United States Postal Service; Mr. Edward J. Gleiman, Chairman, Postal Rate Commission; and other interested parties. Copies will also be made available to others upon request.

Staff acknowledgements are listed in appendix IV. If you have any questions about this report, please call me on (202) 512-8387.



Bernard L. Ungar
Director, Government Business
Operations Issues

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Abbreviations

BCRS	Breast Cancer Research Semipostal
DOD	Department of Defense
ICR	International Communications Research
MOU	Memorandum of Understanding
NBCC	National Breast Cancer Coalition
NIH	National Institutes of Health

Objectives, Scope, and Methodology

Our objectives were to (1) describe the monetary and other resources required by the Postal Service to develop and sell the Breast Cancer Research Semipostal (BCRS), (2) evaluate the effectiveness of using the BCRS as a means of fund-raising, and (3) evaluate the appropriateness of using the BCRS as a means of fund-raising.

To describe the monetary and other resources required by the Postal Service to develop and sell the BCRS, we interviewed officials from the Postal Service's Finance and Stamp Services divisions responsible for the development and oversight of the BCRS. We gathered and analyzed data on the surcharge revenue raised by the BCRS as well as data on the costs and resources the Service required to develop and sell the BCRS. We also reviewed information on BCRS costs and resources included in the Postal Service Office of Inspector General (OIG) 1998 report on the BCRS and included this information, as appropriate. During the course of our work, OIG concluded a follow-up audit of the BCRS program. We reviewed OIG's report and incorporated its findings where appropriate.

To assess the accuracy of the financial data provided by the Postal Service, we discussed financial accountability for the BCRS with officials of the Postal Inspection Service. Those officials told us that the Inspection Service conducts financial audits at selected post offices every year to test internal control systems and verify financial transactions. The Inspection Service chooses post offices to audit on a random basis, using a stratified sample that focuses most heavily on those post offices that generate the most revenue. One aspect of the audits is a review of accountable paper, which includes postage stamps, money orders, philatelic items, etc.

The Inspection Service officials stated that at the 183 post offices for which it issued reports between August 3, 1998, and June 18, 1999, it found some isolated problems with accountable paper, but none were systemic. Additionally, the officials stated that because the BCRS has a unique finance accounting code, any internal control, inventory, or financial transaction problems involving the BCRS would have been specifically noted in the inspection reports. The officials stated that since the BCRS went on sale in July 1998, the Inspection Service has not identified any problems with the BCRS.

We also reviewed 55 reports that we randomly selected from the 183 post office financial audit reports the Inspection Service issued between August 3, 1998, and June 18, 1999. Our review of those 55 reports noted that at 18 locations, some type of stamp accountability problem was noted—though none of the problems were described as potentially systemic in nature.

None of the 55 reports noted any problems with the BCRS. Our assessment of the accuracy of BCRS cost data provided by the Service was limited to a review of the 55 reports and OIG's March 2000 report on the BCRS program.

To help in our evaluation of the effectiveness and appropriateness of using the BCRS as a means of fund-raising, we requested information from 10 foreign postal administrations that had experience with semipostals. Those 10 postal administrations were: (1) Austria, (2) Belgium, (3) Canada, (4) Germany, (5) the United Kingdom, (6) The Netherlands, (7) New Zealand, (8) Sweden, (9) France, and (10) Switzerland. In addition to information about their experiences with semipostals, we requested specific sales data for calendar year 1998. If those data were unavailable, we requested data for the most recent year prior to 1998 for which data were available.

Eight of the postal administrations provided information—France and Switzerland did not. The countries were judgmentally selected after we considered several factors. First, we wanted our survey to include postal administrations that are currently issuing semipostals and postal administrations that have issued semipostals in the past but are not currently doing so. Of the 10 foreign postal administrations selected, 7 are currently issuing semipostals, and 3 have issued semipostals in the past but are not currently doing so. Second, we wanted our survey to include some postal administrations that have long-standing experiences with semipostals. Of the 10 selected, 6 issued their first semipostals more than 50 years ago. Third, we wanted to include only postal administrations in countries with sizeable populations. We defined sizeable as countries with populations of more than 3 million. Using population size as one of our selection criteria, we automatically excluded 16 of the 49 countries that issued semipostals in the 1990s because they had populations of fewer than 3 million. The 10 countries we selected had populations ranging from 3.8 million to 82.1 million in 1998. Fourth, we wanted to survey foreign postal administrations that would most likely respond to our request for information about their experiences with semipostals. To do this, we included foreign postal administrations that have responded to our prior requests for information about other program operations, as well as foreign postal administrations for which the Postal Service could provide us with the name and address of the counterpart of the Postal Service's Manager of Stamp Services. Of the 10 selected, 7 had previously participated in our 1997 survey concerning mailbox restrictions in foreign countries.¹ The Postal Service was able to provide us with the names and

¹ See *U.S. Postal Service: Information About Restrictions on Mailbox Access* (GAO/GGD-97-85, May 30, 1997).

addresses of appropriate contacts in all 10 foreign postal administrations selected.

To help ensure that our survey would provide us with sound data on the experiences of foreign postal administrations, we also discussed, with the Curator of the Smithsonian Institution's National Philatelic Collection and the President of the American Philatelic Society, the list of postal administrations that we planned to survey. Both the Curator of the Smithsonian Institution's National Philatelic Collection and the president of the American Philatelic Society said our list was sound and should provide us with useful information for our study. Nevertheless, because the postal administrations we surveyed were not chosen at random, we cannot generalize their experiences to all postal administrations that have issued semipostals.

To obtain the views of key stakeholders involved with breast cancer research/fund-raising and philately regarding the effectiveness and appropriateness of the BCRS as a fund-raising tool, we judgmentally selected and interviewed officials representing (1) the American Cancer Society, (2) the National Breast Cancer Coalition, (3) the Susan G. Komen Breast Cancer Foundation, (4) the American Philatelic Society, and (5) the Smithsonian Institution's National Philatelic Collection. We also obtained the views of Postal Service officials and interviewed Dr. B. I. Bodai—the individual credited with conceiving the idea for the BCRS and spearheading the lobbying effort that resulted in Congress passing the Stamp Out Breast Cancer Act. Additionally, we met with officials from the National Institutes of Health and the Department of Defense to review the arrangements they had with the Postal Service to receive the surcharge revenue from the BCRS and to discuss their plans for utilizing the funds they receive.

To obtain the public's opinion of the BCRS, we contracted with International Communications Research (ICR) of Media, PA, a national market research firm, to include questions about the semipostal in one of the national telephone surveys it conducts on a regular basis. The ICR national telephone survey that included our questions was conducted during the period between August 4 – 8, 1999. A total of 1,017 adults (507 males/510 females, 18 years of age or older) in the continental United States were interviewed. ICR's survey was made up of a random-digit-dialing sample of households with telephones. To ensure that survey results could be generalized to the adult population 18 years of age or older in the continental United States, ICR adjusted the results from the survey to account for selection probabilities and to match the

characteristics of all adults in the general public according to demographic groups, such as age, gender, region, and education. Because we surveyed a random sample of the population, the results of the survey have a measurable precision or sampling error. Sampling errors are stated at a certain confidence level. The overall results of our survey are surrounded by 95 percent confidence levels of plus or minus 4 percentage points or less.

The practical difficulties of conducting any survey may introduce nonsampling errors. As in any survey, differences in the wording of questions, in the sources of information available to respondents, or in the types of people who do not respond can lead to somewhat different results. We took steps to minimize nonsampling errors. For example, we developed our survey questions with the aid of a survey specialist and pretested the questions prior to submitting them to ICR.

Finally, to identify the statutory authorities consistent or in conflict with using the Postal Service and the BCRS to raise funds for nonpostal purposes, we researched and analyzed applicable sections of the U.S. Code and Postal Service regulations. We also discussed, with postal officials, the legislative history of the act and the Postal Service's current position on semipostals.

Foreign Postal Administrations' Experiences With Semipostals

As part of our review of the BCRS, we surveyed 10 foreign postal administrations to determine their experiences with semipostals. Eight foreign postal administrations responded to our survey: Austria, Belgium, Canada, Germany, the United Kingdom, The Netherlands, New Zealand, and Sweden. Two postal administrations, France and Switzerland, did not respond. This appendix highlights the information provided by the foreign postal administrations that was not included as part of our discussions on the effectiveness and appropriateness of the Postal Service's BCRS.

We found that semipostals have a long-standing tradition in some countries. Semipostals first appeared around the turn of the last century and continue to be used, to this day, to raise money for a number of charitable causes. We also found more differences than similarities among countries' semipostal programs.

The Tradition of Foreign Semipostals

According to an article in the July 13, 1998, issue of Linn's Stamp News,¹ the first semipostals were issued in New South Wales (now part of Australia) in 1897 to raise money for a tuberculosis medical facility in Sydney.² Since then, many other countries have experimented with semipostals as a way to raise money for charitable causes. According to research done by the president of the American Philatelic Association, approximately 50 foreign countries issued semipostals at some time during the 1990s. Of those, 17 issued semipostals on a routine basis. Those countries were Argentina, Aruba, Austria, Belgium, Denmark, Finland, France, Germany, Greenland, Hungary, Indonesia, Luxembourg, The Netherlands, Netherlands Antilles, New Zealand, Switzerland, and Turkey.

Many of the foreign postal administrations responding to our survey reported long traditions and enthusiastic support for their semipostals. For example, Belgium, New Zealand, and The Netherlands reported selling semipostals before 1930. Table II.1 shows when the foreign postal administrations responding to our survey began selling semipostals.

¹ According to the Postal Service, Linn's Stamp News is one of the Nation's primary sources of philatelic news.

² Michael Baadke, "New to the U.S., but More Than a Century Old," *Linn's Stamp News* (July 13, 1998).

Appendix II
Foreign Postal Administrations' Experiences With Semipostals

Table II.1: Year in Which Foreign Postal Administrations Began Selling Semipostals

Foreign postal administration	Year first stamp was sold
The Netherlands	1906
Belgium	1910
Austria	1914
Sweden	1928
New Zealand	1929
Germany	1949
Canada	1974
United Kingdom	1975

Source: Foreign postal administrations that responded to GAO survey.

On the other hand, the United Kingdom, Sweden, and Canada have found semipostals to be unpopular with the public. The United Kingdom and Sweden have permanently discontinued sales of semipostals, and Canada has not issued a semipostal since 1996.

The last semipostals issued by the British Post Office (United Kingdom) were four 1989 Christmas semipostals. The British Post Office worked with the Charities Aid Foundation, which distributed the surcharge revenue to selected charities. The British Post Office reported that the 1989 Christmas semipostals were unpopular with postal customers and Post Office staff. It said some postal customers felt strongly that charitable giving was a personal and private matter. The Post Office also said that some postal customers believed they were being pressured into buying semipostals for their Christmas mail because if they did not, the recipients of the mail would perceive them to be “mean-spirited.” The British Post Office reported that other postal customers did not fully appreciate that none of the money was going towards the benefit of the Post Office, an organization they thought was already making sufficient profits.

The British Post Office also reported that the 1989 Christmas semipostals were unpopular with many postal clerks because they had to take time to explain to postal customers the purpose of the semipostals and why they carried a surcharge. It also said some post offices reportedly ran out of regular Christmas stamps that did not carry the surcharge, forcing postal customers to purchase the Christmas semipostal if they wanted a Christmas stamp.

Sweden Post reported discontinuing semipostals in 1991 because the general public disliked that form of charitable giving. Sweden Post reported that using semipostals to collect money for charity is not popular and is viewed as a very inconvenient method of charitable giving.

Although Canada Post has not discontinued semipostals per se, it has not issued a semipostal since 1996, when it issued a semipostal to promote literacy. Canada Post reported that semipostals are not popular in Canada and sell poorly. Canada Post officials reported that postal customers are resistant to paying more for semipostals. Postal customers would rather give directly to the charity of their choice than have Canada Post choose a charity for them. Canada Post also reported that some postal customers disliked semipostals because (1) tax receipts were not provided with the semipostal purchase, and (2) they did not have a choice regarding the recipient of the surcharge revenue.

Differences in Foreign Semipostal Programs

Our survey of foreign postal administrations found more differences than similarities among their semipostal programs. We found differences among countries in (1) the yearly number of semipostal issues, (2) beneficiaries, (3) sales methods, (4) the primary promoters of semipostals, and (5) surcharge amounts.

The typical number of semipostals issued each year varied by postal administration. Austria and New Zealand had one semipostal issue each year between 1994 and 1998. During the same period, Germany issued between four and six semipostals each year and The Netherlands between two and three. Table II.2 shows the number of semipostal issues between 1994 and 1998 reported by the eight foreign postal administrations that responded to our survey.

Table II.2: Foreign Postal Administrations: Number of Semipostal Issues, 1994 - 1998

Foreign postal administration	1994	1995	1996	1997	1998
Germany ^a	5	4	5	6	4
Belgium ^a	3	4	3	3	3
The Netherlands	2	2	2	3	2
Austria	1	1	1	1	1
New Zealand	1	1	1	1	1
Canada	0	0	1	0	0
United Kingdom	0	0	0	0	0
Sweden	0	0	0	0	0

^aGermany and Belgium's semipostal issues typically encompass several designs. For example, in 1998, Germany issued 4 semipostals that encompassed 17 different designs.

Source: Foreign postal administrations that responded to GAO survey.

The beneficiaries of the surcharge revenue raised by foreign semipostals also varied, as might be expected. For example, Germany's 1998 semipostals raised funds for welfare programs, youth programs, and sports. On the other hand, Austria's 1998 semipostal raised money for the

Appendix II
Foreign Postal Administrations' Experiences With Semipostals

promotion of stamp exhibitions and philatelic activity. Table II.3 shows the beneficiaries of the 1998 semipostal surcharge revenue for the eight foreign postal administrations.

Table II.3: Foreign Postal Administrations: Beneficiaries of 1998 Semipostal Surcharge Revenue (Unless Otherwise Noted)

Foreign postal administration	Beneficiary of surcharge revenue
Austria	Philately
Belgium	Philately, sports, solidarity (1996)
Canada	ABC Canada Literacy Organization (1996)
Germany	Sports, youth programs, welfare programs
United Kingdom	Charity, philately (in previous years)
The Netherlands	Youth and elderly programs
New Zealand	Children's health
Sweden	Philately (in previous years)

Source: Foreign postal administrations that responded to GAO survey.

The foreign postal administrations also varied in the ways they sold their semipostals. For example, in The Netherlands, school children sell a semipostal to benefit children's causes door-to-door. This method has a 75-year tradition and, according to officials, is very effective. On the other hand, The Netherlands' semipostals for the elderly are not sold door-to-door, are purchased mostly by collectors, and do not sell nearly as well. Semipostals in The Netherlands typically remain on sale for 1 year.

In Austria, semipostals typically remain on sale for 5 years; and in Germany, semipostals are typically sold for only about 3-½ months. In New Zealand and Belgium, semipostals are typically sold in post offices for 1-½ months and 6 months, respectively, and by mail order for 1 year.³

The Austria, Belgium, and The Netherlands postal administrations reported that the primary promoters of their semipostals were the semipostals' beneficiaries. Germany and Sweden reported that the postal administration was the primary promoter, and Canada reported that the primary promoters of its 1996 semipostal were the Canadian Government and the beneficiary of the surcharge revenue. New Zealand reported that the postal administration and the beneficiary of the surcharge revenue promoted their semipostals equally.

The eight foreign postal administrations responding to our survey reported differing surcharges for their semipostals, ranging from 2.7 percent to 50

³ On March 30, 2000, the Belgium postal administration informed us that in the future semipostals will be sold in all post offices during the month of issue and for 1 additional month. Additionally, the postal administration stated that semipostals will be sold for 6 months in post offices having philatelic counters and for 1 year by mail order.

percent over postage value. The United Kingdom, for example, reported adding a 2.7-percent surcharge to its 1989 Christmas semipostal. The Netherlands, on the other hand, included a 50-percent surcharge in its semipostals for the children and the elderly. Table II.4 displays the surcharges that the eight foreign postal administrations included in their semipostals.

Table II.4: Surcharge Amounts Included by Foreign Postal Administrations (1998 Unless Otherwise Noted)

Foreign postal administration	Surcharge percentage included
The Netherlands	50%
Austria	40%
Germany	33% - 50%
Belgium (1996)	17.6% - 25%
United Kingdom (1989)	2.7% - 6.6%
Canada (1996)	11.1%
New Zealand	6.25% - 12.5%
Sweden	Information not provided.

Source: Foreign postal administrations that responded to GAO survey.

Similarities in Foreign Semipostal Programs

There were some similarities among a majority of the semipostal programs of the eight foreign postal administrations responding to our survey. The similarities were that (1) most foreign postal administrations promoted their semipostals no more heavily than other postage stamps, and (2) more organizations wanted to be the beneficiaries of a semipostal's surcharge revenue than could be accommodated.

The postal administrations of Austria, The Netherlands, Sweden, and Canada reported promoting their semipostals at about the same level that they promoted their other stamps, although Sweden and Canada have not issued semipostals since 1991 and 1996, respectively. Germany reported promoting its semipostals less extensively than its other stamps. Belgium and New Zealand were the only postal administrations that reported promoting their semipostals more extensively than other stamps.

The most similar experience reported by the foreign postal administrations was that more organizations wanted to be the beneficiaries of a semipostal's surcharge revenue than the postal administration could accommodate. Of the seven postal administrations commenting about semipostal beneficiaries, only Sweden reported that it did not have more organizations that wanted to be the beneficiaries of a semipostal than it could accommodate (the British Post Office did not comment). Some of the postal administrations explained how they handled this situation. The Austrian postal administration reported that the legislature made decisions regarding which organizations were to have a semipostal to raise money.

Appendix II
Foreign Postal Administrations' Experiences With Semipostals

The Belgian postal administration reported that it had developed strict criteria that were applied in order to determine which organizations received a semipostal. Canada Post reported that its Stamp Advisory Committee decides which organizations are to receive semipostals in years when semipostals are offered. The Netherlands postal administration reported that its semipostals follow tradition. Each year, one children's semipostal and a semipostal for the elderly are issued. Additionally, every 5 years, The Netherlands postal administration issues a semipostal to benefit The Red Cross.

Comments From the U.S. Postal Service

WILLIAM J. HENDERSON
POSTMASTER GENERAL, CEO



April 11, 2000

Mr. Bernard L. Ungar
Director, Government Business
Operations Issues
United States General Accounting Office
Washington, DC 20548-0001

Dear Mr. Ungar:

Thank you for providing the Postal Service the opportunity to review and comment on the draft report entitled, Breast Cancer Research Stamp: Millions Raised for Research, But Better Cost Recovery Criteria Needed. We concur with the report's findings and recommendations and are pleased to note the professionalism and thoroughness shown by your staff during the course of this study.

With the passage of the Stamp Out Breast Cancer Act in August 1997, Congress established the first semipostal stamp in the nation's history. In response to the Act, the Postal Service issued the Breast Cancer Research Stamp (BCRS) on July 29, 1998, with the price equal to the First-Class postage rate plus a surcharge amount that constitutes a voluntary contribution by postal patrons to breast cancer research organizations. As of March 24, 2000, the Postal Service has sold 170 million BCR stamps, which translates into a \$12.5 million contribution to the Department of Defense (DOD) and the National Institutes of Health (NIH). We will continue to enthusiastically promote the stamp throughout the remainder of its sales period.

The report expresses a concern that we have not yet announced our criteria for determining the amount we will deduct from the stamp's surcharge revenue to cover the costs we incur in carrying out the Act's requirements. We intend to deduct from the BCRS surcharge revenue those costs that are over and above the costs we normally incur with the development and sale of blockbuster commemorative stamp issues or new postal products. As the report notes, we have identified six cost categories that are specifically attributable to the BCRS. We believe that the Act gives us the latitude to identify these as "reasonable costs" and to deduct them from the surcharge revenue. Further, we believe that this policy is in keeping with the intent of Congress in establishing this convenient method for the public to make voluntary contributions to breast cancer research. At the same time, our policy ensures that postal ratepayers are not being required to make involuntary contributions to breast cancer research in the form of BCRS costs that, if not recovered from the surcharge revenue, would become part of the Postal Service's overall expense base.

We will issue final regulations to formalize our BCRS cost recovery policy by the end of the stamp's sales period on July 28, 2000, and we will apply that policy to all of the identified BCRS costs prior to making the last transfers to DOD and NIH. These actions will, in our view, fully implement the report's first recommendation. We also concur with the section entitled "Matters for Consideration by Congress;" that is, if Congress decides that our cost recovery policy is not in keeping with its intent, then Congress may wish to include in future legislation explicit criteria for determining the reasonable costs we should recover from a semipostal's surcharge revenue. We also believe that Congress may wish to clarify its intent on the tax-deductibility of the surcharge as a charitable contribution by postal patrons by enacting specific legislation for that purpose.

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-0010
202-268-2500
FAX: 202-268-4860

Appendix III
Comments From the U.S. Postal Service

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The report also recommends that we make available data and analysis showing which BCRS costs have been recovered through the stamp's 33-cent First-Class postage rate. We will provide that information to our congressional oversight committees within 60 days after the end of the BCRS sales period. The fiscal year 1999 Cost and Revenue Analysis (CRA), available within the month, and the fiscal year 1998 CRA report provide information on full coverage of either direct allocation or institutional cost of the items covered by the First-Class postage rate. These data are audited annually and are used as a basis for our rate cases.

While we are pleased and gratified by the extraordinary success of the BCRS as a vehicle for raising funds for breast cancer research, it is nevertheless our position that Congress should not at this time enact other semipostal stamps. First, we consider that the Postal Service's involvement in fund-raising through the sale of semipostals is an activity that is outside the scope of our mission as defined by the Postal Reorganization Act. Second, the success of the BCRS as a fund-raiser does not mean that other semipostal issues would necessarily enjoy a similar level of success. In fact, it is possible that any future semipostals may generate only modest amounts of revenue while still requiring substantial expenditures of postal resources which, when recovered from the surcharge, would further reduce or even eliminate the amounts ultimately available for the particular causes. Third, given that there are currently at least eight semipostal bills awaiting congressional consideration, it seems clear that Congress will soon be faced with the dilemma of choosing which causes are worthy of having a semipostal stamp issued—unless Congress decides that the Postal Service should not be in the fund-raising business. We would endorse such a decision. For these reasons, we think, for the foreseeable future at least, the BCRS should not be followed by other semipostals.

If you would like to discuss any of these comments, my staff is available at your convenience.

Sincerely,


William J. Henderson

GAO Contact and Staff Acknowledgments

GAO Contact

Bernard L. Ungar (202) 512-8387

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Gerald P. Barnes, Charles F. Wicker, Roger L. Lively, Alan N. Belkin, Jill P. Sayre, William R. Chatlos, and Stuart M. Kaufman made key contributions to this report.

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