



February 24, 2005

JOHN R. WARGO
VICE PRESIDENT, SERVICE AND MARKET DEVELOPMENT

SUBJECT: Audit Report - Fiscal Year 2004 Financial Installation Audit – Business Mail Entry Units (Report Number FF-AR-05-065)

This report presents the results of our financial installation audit of statistically selected business mail entry units (BMEU) for fiscal year (FY) 2004 (Project Number 04XD003FF000). We conducted this audit in support of the audit of the Postal Service's financial statements.

Based on the items we reviewed, financial transactions were reasonably and fairly presented in the accounting records, and, generally, the internal controls we examined were in place and effective at 97 of the 98 units. However, at one unit, critical internal control and compliance issues existed because the unit did not follow procedures for Periodicals and business mail acceptance and verification. We made recommendations to district management addressing the findings at each installation. District management's comments were responsive to our findings and recommendations, and the actions taken or planned should correct the issues identified at these installations.

During our audits of the 98 units, we identified internal control and compliance issues related to mail acceptance and verification procedures, Periodicals publications, nonprofit mailings, reconciliation of master trust accounts, Permit System¹ functions, and special postage payment systems agreements. These issues were also reported in our previous report, Fiscal Year 2003 Financial Installation Audit – Business Mail Entry Units (Report Number FF-AR-04-256, August 18, 2004). As corrective actions pertaining to these previously reported issues are in progress at the headquarters level, we are not making further recommendations in this report of audit. We are presenting the internal control and compliance issues in this report to further emphasize their significance. Management agreed with the issues presented in the report. Management's comments and our evaluation of these comments are included in the report.

¹ PostalOne! has replaced the Permit System.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions, please contact Darrell Benjamin or me at (703) 248-2300.

/s/ Colleen A. McAntee

Colleen A. McAntee
Deputy Assistant Inspector General
for Field Operations

Attachments

cc: Richard J. Strasser, Jr.
Lynn Malcolm
Frederick J. Hintenach
Stephen J. Nickerson
Steven R. Phelps

TABLE OF CONTENTS

Executive Summary	i
Part I	
Introduction	1
Background	1
Objectives, Scope, and Methodology	2
Prior Audit Coverage	2
Part II	
Audit Results	4
Employees Did Not Always Follow Acceptance and Verification Procedures	4
Controls Over Periodicals Publications Needed Improvement	5
Nonprofit Mailings Needed Additional Monitoring	6
Reconciliation of Trust Account Balances Needed Improvement	6
Controls Over Permit System Functions Needed Strengthening	7
Controls Over Special Postage Payment Systems Agreements Needed Improvement	8
Recommendations	8
Management's Comments	9
Evaluation of Management's Comments	9
Appendix A. Abbreviations and Acronyms	10
Appendix B. Sites Visited	11
Appendix C. Sampling Methodology	14
Appendix D. Management's Comments	16

EXECUTIVE SUMMARY

Introduction

This report summarizes the results of our audits of 98 statistically selected business mail entry units (BMEU) for fiscal year 2004. The Postal Reorganization Act of 1970 requires annual audits of the Postal Service's financial statements. We conducted these audits in support of the audit of the Postal Service financial statements. The audits at each of the BMEUs were unannounced.

The overall objectives of our audits were to determine whether financial transactions of field operations were reasonably and fairly presented in the accounting records, and whether internal controls were in place and effective at the 98 statistically selected BMEUs.

Results in Brief

Based on the items we reviewed, financial transactions were reasonably and fairly presented in the accounting records, and, generally, the internal controls we examined were in place and effective at 97 of the 98 units. However, at one unit, critical internal control and compliance issues existed because the unit did not follow procedures for Periodicals and business mail acceptance and verification. Specifically, BMEU employees did not use the Permit System to record or account for business mail or Periodicals revenue. Employees used calculations submitted by the mailer and did not verify the calculations in the Permit System. Although revenue was withdrawn from mailers' trust accounts maintained in the Point of Service (POS ONE) system, the Permit System was bypassed and employees relied solely on the calculations submitted by the mailers on the postage statements. The Postmaster of this unit stated district officials did not approve his request for additional resources to perform business mail functions and did not allow budgeted hours for mail acceptance duties. As a result, the Postmaster stated employees did not have time to input data into the Permit System.

During our audits of the 98 units, we identified internal control and compliance issues related to mail acceptance and verification procedures, Periodicals publications, nonprofit mailings, reconciliation of master trust accounts, Permit System functions, and special postage payment systems agreements. These issues were also reported in

our previous report, Fiscal Year 2003 Financial Installation Audit – Business Mail Entry Units (Report Number FF-AR-04-256, August 18, 2004).

Summary of Recommendations	Because corrective actions pertaining to these previously reported issues are in progress, we are not making further recommendations in this audit report. We are presenting the internal control and compliance issues in this report to further emphasize their significance.
Summary of Management's Comments	Management agreed with the issues presented in the report. Management's comments, in their entirety, are included in Appendix D of this report.
Overall Evaluation of Management's Comments	Management's comments are responsive to the findings.

INTRODUCTION

Background

Beginning in fiscal year (FY) 2001, the Office of Inspector General (OIG) assumed responsibility for conducting financial audits. These audits include reviews of revenue-generating units, which include post offices, contract postal units, self-service postal centers, and business mail entry units (BMEU); and stamp distribution offices. We conduct these audits in support of the overall audit of the Postal Service's financial statements.

BMEUs are established for authorized business mailers to present business mailings. The Postal Service requires all mailings to be properly prepared by the mailer, taken to an approved BMEU, and paid for before entering the mailstream, unless otherwise authorized by a rates and classification service center.

Most mailings entered at BMEUs are presorted and receive a discounted rate. Presorting mail is a work-sharing incentive that offers discounted postage rates to customers in exchange for performing a portion of the work associated with mail processing. Unless business mailings are properly prepared to qualify for the discounts claimed, the Postal Service incurs increased processing costs.

The Permit System has been the Postal Service's primary source for recording business mail and Periodicals transactions. However, in late FY 2004, BMEUs completed their migration from the Permit System to the PostalOne!. In the initial release, PostalOne! allowed users to enter postage statements, deposits, and other financial transactions, and to retrieve reports necessary to manage the day-to-day business of their units. PostalOne! also allows customers to submit postage statements and other information to the Postal Service through Web-based initiatives. PostalOne! will eventually replace all current logs and worksheets used in the BMEUs.

FY 2004 was the first year BMEUs used financial data from the Accounting Data Mart (ADM) to reconcile master trust accounts. This process was designed as a part of the Postal Service's Shared Services/Accounting project. ADM produces a report that provides monthly beginning and

ending balances and lists daily deposits and withdrawals for each trust account balance in the Permit System.

**Objectives, Scope,
and Methodology**

The overall objectives of our audit were to determine whether financial transactions of field operations were reasonably and fairly presented in the accounting records, and whether internal controls were in place and effective.

To accomplish our objectives, we conducted fieldwork from November 2003 through October 2004. The audits at each of the BMEUs were unannounced. We statistically selected 98² BMEUs for review from a population of 2,390 units. These 2,390 units reported revenue of \$20.7 billion in FY 2002. (Appendix B lists the sites selected.)

We traced recorded financial transactions to and from supporting documentation and assessed the reliability of computerized data by verifying the computer records to source documents. We also evaluated whether the internal control structure over financial reporting and safeguarding of assets was implemented and functioning as designed. We interviewed employees and observed operations at the statistically selected BMEUs.

We conducted this audit from October 2003 through February 2005 in accordance with generally accepted government auditing standards and included tests of internal controls that were necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments, where appropriate. We issued individual reports to management at each statistically selected BMEU.

Prior Audit Coverage

We evaluated all findings reported by the Postal Inspection Service in individual site reports from FYs 1999 through 2000 and by the OIG in FYs 2001 through 2003. We reported the status of recommendations in the individual site reports to the district managers.

In our previous report, Fiscal Year 2003 Financial Installation Audit – Business Mail Entry Units (Report

² Our original sample was 100 BMEUs; however, we were not able to complete audit procedures at 2 of the BMEUs sampled. This is explained in further detail in Appendix C of this report.

Number FF-AR-04-256, August 18, 2004), we reported management could strengthen its internal controls over business mail acceptance, and verification procedures; Periodicals publications; nonprofit mailings; convenience deposit point procedures; trust account balances; Permit System activities; bypass mailings; and special postage payment systems. Management stated:

- Corrective actions such as notifying area Vice Presidents to reiterate training requirements for business mail entry employees would be accomplished.
- Changes to Periodicals mailing procedures would be included in a Postal Bulletin.
- Web training was planned.

Further, Postal Bulletins issued in FY 2005 will include guidance on adherence to current policies and procedures over nonprofit mailings, trust account balances, computer system administration, and bypass mailings. Management stated they would monitor special postage payment agreements using a database that includes agreements nationwide.

Management held a teleconference with district and area BMEU officials in June 2004 to reiterate the importance of reconciling trust account balances, and stated they would issue an article in the Postal Bulletin at the end of FY 2004. We identified many of the same issues in our FY 2004 audit. We are presenting the internal control and compliance issues in this report to further emphasize their significance.

AUDIT RESULTS

Employees Did Not Always Follow Acceptance and Verification Procedures

Employees did not always follow acceptance and verification procedures. Specifically:

- For business mailings at 41 sites and Periodicals mailings at 36 sites, employees did not sign, date, or otherwise complete all Postal Service sections of the postage statements.
- For business mailings at 16 sites and Periodicals mailings at 22 sites, employees did not always record revenue on the same day the mailings were accepted.
- At four units, 71 postage statements totaling \$8,400 were not recorded. Therefore, employees had not deducted funds or collected revenue from the mailers.
- Employees did not properly use the Mailing Evaluation, Readability and Lookup INstrument (MERLIN) at ten sites to perform mail sampling procedures. Employees at seven sites either did not conduct verifications for all mailings over 10,000 pieces or did not use the Random Selection List to select trays used to test the mail. Employees at three other sites did not collect additional postage, totaling approximately \$20,000, for mailings that failed tests on MERLIN. Additionally, employees stated a MERLIN [REDACTED] but it was not used at all for six months and currently is used only once a day. Recently, Postal Service Headquarters indicated they understood a goal of 100 percent was unachievable in many facilities due to variances in mail characteristics, operating windows, mail volume, and resource limitations. Headquarters is collecting data that will enable them to establish realistic, achievable goals for individual units. They are also conducting a staffing analysis to help align resources with MERLIN verification procedures. After this analysis is complete, they will develop a revised approach and new goals for verifications using MERLIN.

- At four sites, employees either did not test the accuracy of their scales or did not use scales to determine the weight of a single mailpiece during verification. These conditions occurred because employees stated they were not aware they had to test the accuracy of the scales.

Handbook DM-109, Business Mail Acceptance, Chapter 4, August 1999 (updated through January 2000), gives procedures for mail acceptance and verification, and requires employees to ensure mail received from customers meets specific mail preparation standards and to enter all postage statements into the Permit System before mail is released to operations. In general, the conditions described above occurred because employees stated they were not aware of all required procedures or did not have sufficient time to follow procedures due to other priorities. When employees perform and document mail acceptance and verification procedures, the Postal Service has increased assurance that mailings meet the basic standards for mail preparation. Furthermore, BMEU employees must collect and report Postal Service revenue in a timely manner for the Postal Service to receive prompt payment for all services rendered.

**Controls Over
Periodicals
Publications Needed
Improvement**

Employees at 46 of the 98 units did not always adhere to procedures for Periodicals publications. As a result, the Postal Service could not be sure standards for Periodicals rates were met, which could result in lost revenue. Specifically:

- Employees did not conduct annual postage payment reviews at 46 units and advertising percentage reviews at 37 units. Handbook DM-202, Periodicals Postage Payment Review, September 2000, and Domestic Mail Manual, Issue 58 (updated with changes through September 2004), state employees must conduct postage payment reviews and verify the advertising percentage reported on the postage statement once each year. Employees generally stated they did not conduct the reviews because they were not trained or did not know how to conduct reviews, or they did not have time due to other priorities.
- At 19 units, employees did not ensure mailers submitted Postal Service (PS) Forms 3526, Statement

of Ownership, Management, and Circulation, by October 1 of each year. Domestic Mail Manual, Issue 58, Section E216, gives the basic standards for publishers, which include submitting PS Forms 3526. At some units, employees stated the PS Form 3526 was not on file because other duties took priority. Other employees stated they were not aware of the requirement, and others stated the form was not on file because employees had not followed up with the mailers to obtain it.

**Nonprofit Mailings
Needed Additional
Monitoring**

Employees at 12 of the 98 units accepted mailings at Nonprofit mail rates from organizations that did not have authorization from the rates and classification service center. Domestic Mail Manual, Issue 58, Section E670, states only organizations that meet the standards and have received authorization from the Postal Service may mail eligible matter at Nonprofit mail rates. These conditions existed because employees did not monitor the status of mailers' eligibility for Nonprofit rates. In some cases, employees believed the mailers were authorized to claim Nonprofit Standard Mail rates because the Permit System showed them as eligible for nonprofit status. When mailers mail at Nonprofit rates without authorization, the risk the Postal Service could lose revenue is greatly increased. The Postal Service could have earned potential additional revenue of \$116,000 for these mailings that were inappropriately made at the Nonprofit rate.

**Reconciliation of
Trust Account
Balances Needed
Improvement**

Employees at 36 of the 98 sites did not reconcile differences between trust account balances provided in ADM with balances maintained by the unit. The Postmasters Field Guide, Version 4.0, January 3, 2003 (updated through April 2004), requires units to reconcile master trust account balances. Employees stated they had not received training; therefore, they did not understand the requirement to reconcile trust accounts with data in the accounting system. Trust account balances must be reconciled with the accounting system because imbalances could result in misstatements of liabilities and revenue.

Controls Over Permit System Functions Needed Strengthening	Employees did not always follow prescribed procedures for using the Permit System. ³ Specifically, Supervisors did not always ensure funds from closed accounts were transferred in accordance with Postal Service instructions, monitor employee overrides, and limit access to the system.
Closing Inactive Customer Accounts Needed Improvement	Employees at 29 sites did not refund balances to customers or transfer unclaimed refunds to miscellaneous revenue. Handbook F-1, <u>Post Office Accounting Procedures</u> , Section 631, November 1996 (updated with Postal Bulletin revisions through October 2004), requires employees to close an account for inactivity (two years without a transaction) and send a cancellation notice to the customer. Employees stated they did not send refunds or make transfers because they did not understand the requirements or did not have time to follow the prescribed procedures. Inactive accounts must be processed as required because funds could be improperly disbursed.
Employee Overrides Were Not Reviewed	Supervisors at 18 sites did not use the daily Override Report to monitor employees' overrides. Handbook DM-109, Appendix A, states supervisors should use the Override Report generated from the Permit System to track unnecessary overrides and investigate their causes and resolution. Most Supervisors stated they were not aware of the requirement to use the Override Report to review Clerks' overrides. Monitoring the Override Report can also prevent problems such as unpaid annual fees or negative customer balances that appear as recurring overrides.
Access Restrictions Were Not Always Followed	Former employees at 19 sites still had access to the Permit System. Handbook AS-805, <u>Information Security</u> , Section 9-2.6, March 2002, states Managers are responsible for notifying System Administrators when personnel no longer need access to information resources. Managers at the sites stated they had not deleted the employees from the system because they overlooked the requirement or were not aware of the procedures for deleting employees' access. When access to the Permit System is not restricted, its security is diminished.

³ As previously stated PostalOne! has now replaced the Permit System; however, these issues are indicative of system control issues and also apply to PostalOne!.

Controls Over Special Postage Payment Systems Agreements Needed Improvement

Employees at 16 of the 98 units did not follow prescribed procedures for special postage payment systems agreements. Specifically:

- Employees at 13 sites accepted mailings under a special postage payment system agreement, although the agreement had expired. Domestic Mail Manual, Issue 58, specifies mailers who mail under a special postage payment system agreement must have a current, two-year agreement on file. Managers stated agreements had expired because they overlooked the requirement or other work took priority, not allowing them time to ensure the agreements were kept up to date. Accepting mail under special postage payment systems agreements without current authorizations could result in lost revenue.
- Employees at three sites did not always conduct the required verifications for Manifest Mailing Systems. In addition, at another location, the mail was left unsecured from the time the employee completed the verification until it was picked up for processing. Publication 401, Guide to Manifest Mailing System, June 2002, gives instructions for accepting mailings under this type of agreement. Employees stated they did always conduct verifications because of time constraints. If controls for verification are not followed, the Postal Service cannot be sure the mailer complies with all terms of the agreement, which may create a potential revenue loss. [REDACTED]

Recommendations

The issues presented in this report were reported in our previous report, Fiscal Year 2003 Financial Installation Audit – Business Mail Entry Units (Report Number FF-AR-04-256, August 18, 2004). Because corrective actions pertaining to these previously reported issues are in progress, we are not making further recommendations in this report. We are presenting the internal control and compliance issues in this report to further emphasize their significance.

**Management's
Comments**

Management agreed with the issues presented in the report.

**Evaluation of
Management's
Comments**

Management's comments are responsive to the findings.

APPENDIX A. ABBREVIATIONS AND ACRONYMS

FY	Fiscal Year
BMEU	Business Mail Entry Units
PS	Postal Service
MERLIN	Mail Evaluation, Readability and Lookup INstrument
SAFR	Standard Accountability for Retail
SURDA	Standard Field Accounting Unit Revenue Data Access
ADM	Accounting Data Mart

APPENDIX B. SITES VISITED

Business Mail Entry Unit (BMEU)	Revenue \$	Location
FY 2002 Revenue \$100 Million or Greater		
[REDACTED]	\$761,197,342	[REDACTED]
[REDACTED]	596,854,368	[REDACTED]
[REDACTED]	453,880,884	[REDACTED]
[REDACTED]	436,718,656	[REDACTED]
[REDACTED]	174,099,241	[REDACTED]
[REDACTED]	167,781,891	[REDACTED]
[REDACTED]	159,987,132	[REDACTED]
[REDACTED]	153,844,194	[REDACTED]
[REDACTED]	152,775,885	[REDACTED]
[REDACTED]	144,072,933	[REDACTED]
[REDACTED]	140,305,432	[REDACTED]
[REDACTED]	139,445,478	[REDACTED]
[REDACTED]	133,529,260	[REDACTED]
[REDACTED]	123,973,019	[REDACTED]
Category Subtotal	\$3,738,465,715	
FY 2002 Revenue Between \$1 Million and \$100 Million		
[REDACTED]	\$93,821,007	[REDACTED]
[REDACTED]	88,690,032	[REDACTED]
[REDACTED]	76,269,730	[REDACTED]
[REDACTED]	74,268,820	[REDACTED]
[REDACTED]	65,376,270	[REDACTED]
[REDACTED]	63,453,191	[REDACTED]
[REDACTED]	58,868,059	[REDACTED]
[REDACTED]	50,216,260	[REDACTED]
[REDACTED]	46,656,056	[REDACTED]
[REDACTED]	46,446,986	[REDACTED]
[REDACTED]	46,228,653	[REDACTED]
[REDACTED]	45,287,401	[REDACTED]
[REDACTED]	44,445,818	[REDACTED]
[REDACTED]	40,357,417	[REDACTED]
[REDACTED]	39,059,266	[REDACTED]
[REDACTED]	35,879,611	[REDACTED]
[REDACTED]	33,531,108	[REDACTED]

Business Mail Entry Unit (BMEU)	Revenue \$	Location
[REDACTED]	33,200,305	[REDACTED]
[REDACTED]	30,070,890	[REDACTED]
[REDACTED]	25,418,844	[REDACTED]
[REDACTED]	24,699,117	[REDACTED]
[REDACTED]	23,358,176	[REDACTED]
[REDACTED]	21,830,289	[REDACTED]
[REDACTED]	20,552,854	[REDACTED]
[REDACTED]	18,736,388	[REDACTED]
[REDACTED]	18,687,385	[REDACTED]
[REDACTED]	16,135,328	[REDACTED]
[REDACTED]	15,218,381	[REDACTED]
[REDACTED]	14,210,590	[REDACTED]
[REDACTED]	13,027,840	[REDACTED]
[REDACTED]	12,452,408	[REDACTED]
[REDACTED]	11,805,481	[REDACTED]
[REDACTED]	10,825,254	[REDACTED]
[REDACTED]	10,369,115	[REDACTED]
[REDACTED]	10,211,050	[REDACTED]
[REDACTED]	10,025,881	[REDACTED]
[REDACTED]	9,411,624	[REDACTED]
[REDACTED]	8,749,815	[REDACTED]
[REDACTED]	8,747,161	[REDACTED]
[REDACTED]	7,768,103	[REDACTED]
[REDACTED]	7,734,143	[REDACTED]
[REDACTED]	7,522,641	[REDACTED]
[REDACTED]	7,359,451	[REDACTED]
[REDACTED]	6,162,134	[REDACTED]
[REDACTED]	5,508,172	[REDACTED]
[REDACTED]	5,082,709	[REDACTED]
[REDACTED]	4,836,211	[REDACTED]
[REDACTED]	4,679,536	[REDACTED]
[REDACTED]	4,608,894	[REDACTED]
[REDACTED]	4,158,041	[REDACTED]
[REDACTED]	3,601,513	[REDACTED]
[REDACTED]	3,131,758	[REDACTED]
[REDACTED]	3,060,936	[REDACTED]
[REDACTED]	2,891,121	[REDACTED]
[REDACTED]	2,829,791	[REDACTED]
[REDACTED]	2,652,671	[REDACTED]

Business Mail Entry Unit (BMEU)	Revenue \$	Location
[REDACTED]	2,316,050	[REDACTED]
[REDACTED]	2,011,607	[REDACTED]
[REDACTED]	1,959,461	[REDACTED]
[REDACTED]	1,885,461	[REDACTED]
[REDACTED]	1,452,801	[REDACTED]
[REDACTED]	1,278,203	[REDACTED]
[REDACTED]	1,182,487	[REDACTED]
[REDACTED]	1,104,450	[REDACTED]
[REDACTED]	1,102,733	[REDACTED]
Category Subtotal	\$1,414,480,939	
FY 2002 Revenue Less Than \$1 Million		
[REDACTED]	\$929,346	[REDACTED]
[REDACTED]	868,735	[REDACTED]
[REDACTED]	734,113	[REDACTED]
[REDACTED]	725,179	[REDACTED]
[REDACTED]	632,548	[REDACTED]
[REDACTED]	432,799	[REDACTED]
[REDACTED]	399,453	[REDACTED]
[REDACTED]	265,681	[REDACTED]
[REDACTED]	219,224	[REDACTED]
[REDACTED]	210,179	[REDACTED]
[REDACTED]	202,585	[REDACTED]
[REDACTED]	187,157	[REDACTED]
[REDACTED]	97,910	[REDACTED]
[REDACTED]	96,400	[REDACTED]
[REDACTED]	19,075	[REDACTED]
[REDACTED]	18,072	[REDACTED]
[REDACTED]	0	[REDACTED]
[REDACTED]	0	[REDACTED]
[REDACTED]	0	[REDACTED]
Category Subtotal	\$6,029,456	
Overall Total	\$5,158,976,111	

APPENDIX C. SAMPLING METHODOLOGY

We did a compliance sample of BMEUs to test internal controls. The sample design allows us to compute the upper control limit of deviations from prescribed control procedures and to identify internal control deficiencies. We made separate estimates for each category of internal controls tested (24 projections). The audit universe consisted of 2,390 BMEUs. The universe was obtained from the Standard Field Accounting Unit Revenue Data Access (SURDA) database.

We sampled 100 BMEUs (See note below). Our sampling objective was to estimate the rate of deviation from prescribed control procedures. This sample was designed to achieve a 5 percent risk of over-reliance (BETA Risk), with a tolerable deviation rate of 5 percent, allowing one compliance error. For comparative purposes, we also provided our results for 10 percent BETA Risk. Our sample results yielded the following upper limits:

Description of Attributes	Number of Sites	Reported Findings	UEL* (.05 BETA)	UEL (.10 BETA)
Step 3301 - Negative Balances	100	3	0.075	0.065
Step 3302 - Supervisory Reviews of Override Transactions	100	18	0.254	0.238
Step 3303 - Procedures for Closing Cancelled Accounts	100	29	0.372	0.355
Step 3304 - Restricting Access to Permit System	100	19	0.265	0.249
Step 3305 - By Pass Mailings	100	2	0.061	0.052
Step 3306 - Reconciliation of Master Trust Accounts	100	36	0.445	0.427
Step 3401 - Business Mail Acceptance and Verification Procedures	100	41	0.495	0.478
Step 3402 - Convenience Deposit Points	100	1	0.046	0.038
Step 3403 - Nonprofit Rates Authorizations	100	12	0.186	0.172
Step 3404 - Observation of Business Mail	100	7	0.126	0.114
Step 3501 - Periodical Authorizations	100	3	0.075	0.065
Step 3502 - Missing Periodical Postage Statements	100	4	0.088	0.078
Step 3503 - Postage Payment Reviews	100	46	0.545	0.528
Step 3504 - Periodicals Acceptance and Verification Procedures	100	36	0.445	0.427
Step 3505 - Eligibility Reviews	100	19	0.265	0.249
Step 3506 - Advertising Percentage Verifications	100	37	0.455	0.437
Step 3507 - Monthly Postage Statements	100	4	0.088	0.078
Step 3508 - Observation of Periodicals	100	3	0.075	0.065
Step 3601 - Authorizations for SPPS Agreements	100	13	0.197	0.183
Step 3602 - Compliance with Terms of Agreements	100	5	0.101	0.089
Step 3603 - Acceptance Procedures At Detached Mail Units	100	7	0.126	0.114
Step 3604 - Plant Verified Drop Shipments	100	2	0.061	0.052
Step 3701 - Acceptance Procedures using Merlin	100	10	0.162	0.149
Step 3702 - Site Readiness for Merlin	100	3	0.075	0.065

* UEL – upper error limit.

Note: We were not able to complete audit procedures at 2 of the 100 BMEUs sampled. We treated these units as not containing any deviation conditions for purposes of these estimates. This represents potential nonresponse bias. Accordingly, if the two units not audited contained any of the deviations noted herein, the estimates would be greater.

APPENDIX D. MANAGEMENT'S COMMENTS

JOHN R. WARGO
VICE PRESIDENT, SERVICE AND MARKET DEVELOPMENT



February 4, 2005

Colleen A. McAntee
Deputy Assistant Inspector General for Field Operations

SUBJECT: Transmittal of Draft Audit Report – Fiscal Year 2004 Financial Installation
Audit Business Mail Entry (Report Number FF-AR-05-DRAFT)

Management agrees with the findings in the report. Management does not consider any of the information in the report proprietary.

As stated in the report, corrective actions pertaining to the issues presented in FY 2004 report that were previously reported in the FY2003 report are still in progress. We will continue our efforts to improve field business mail entry operations compliance with established policy and procedures.

A handwritten signature in black ink that reads "John R. Wargo".

John R. Wargo

cc: Pritha Mehra

475 L'ENFERIE PLAZA SW
WASHINGTON DC 20260-8657
202-268-5300
FAX 202-268-3301
WWW.USPS.COM