



February 15, 2007

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VICE PRESIDENT, CUSTOMER SERVICE

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SUBJECT: Audit Report – Fiscal Year 2006 Financial Installation Audit – Business
Mail Entry Units (Report Number FF-AR-07-090)

This report presents the results of our financial installation audit of statistically selected business mail entry units for fiscal year 2006 (Project Number 06BD002FF000, formerly Project Number 06XD002FF000). We conducted this audit in support of the audit of the U.S. 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. However, we identified various internal control and compliance issues related to managing customer accounts and eligibility requirements; accepting, verifying, and clearing the mail; monitoring Special Postage Payment System (SPPS) agreements and protecting Postal Service revenue; and following general operating procedures.

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. (See Appendix A for a list of those reports.)

In this report, we recommended the Vice President, Customer Service, and the Vice President, Pricing and Classification, reinforce policies and procedures for managing customer accounts and eligibility requirements; accepting, verifying, and clearing mail; monitoring SPPS agreements; protecting Postal Service revenue; and following general operating procedures. Management agreed with the findings and recommendation and stated they will incorporate the information into their Business Mail Acceptance training and communication efforts, which will include correspondence, Web casts, newsletters, and the revised DM-109, *Business Mail Acceptance*, that was published in September 2006. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the audits. If you have any questions or need additional information, please contact Darrell Benjamin, Director, Field Financial – Central, or me at (703) 248-2100.



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EXECUTIVE SUMMARY

Introduction

This report summarizes the results of the fiscal year 2006 audits we conducted at 102 business mail entry units (BMEU). The Postal Reorganization Act of 1970 requires annual audits of the U.S. Postal Service's financial statements. The overall objectives of our audits were to determine whether financial transactions at BMEUs were reasonably and fairly presented in the accounting records and whether internal controls were in place and effective at the units. This report summarizes the results of our BMEU audits.

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. However, we identified various internal control and compliance issues related to managing customer accounts and eligibility requirements; accepting, verifying, and clearing the mail; monitoring Special Postage Payment System (SPPS) agreements and protecting Postal Service revenue; and following general operating procedures.¹

Summary of Recommendations

We made recommendations to district management addressing the findings at each installation. In this report, we recommended the Vice President, Customer Service, and the Vice President, Pricing and Classification, reinforce policies and procedures for managing customer accounts and eligibility requirements; accepting, verifying, and clearing mail; monitoring SPPS agreements; protecting Postal Service revenue; and following general operating procedures.

Summary of Management's Comments

Management agreed with the findings and recommendation and stated they will incorporate the information into their Business Mail Acceptance training and communication efforts, which will include correspondence, Web casts, newsletters, and the revised DM-109, *Business Mail Acceptance*, that was published in September 2006. Management's comments in their entirety are included in Appendix C.

¹ Appendix B contains the sample design, separate projections for each category with internal control deficiencies, and detailed findings identified at each installation.

**Overall Evaluation of
Management's
Comments**

Management comments were responsive to our findings and recommendation.

INTRODUCTION

Background

Beginning in fiscal year (FY) 2001, the U.S. Postal Service Office of Inspector General (OIG) assumed responsibility for conducting financial audits. These audits include reviews of revenue-generating units, such as business mail entry units (BMEU). We conduct these audits in support of the overall audit of the U.S. Postal Service's financial statements.

BMEUs are established for authorized business mailers to present business mailings. The Postal Service requires mailers to properly prepare all mailings, take them to an approved BMEU, and pay for them before they enter the mailstream, unless otherwise authorized by the Pricing and Classification Service Center (PCSC).

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 PostalOne! system is the Postal Service's primary system for recording business mail and Periodicals transactions. The PostalOne! system allows 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. It also allows customers to submit postage statements and other information to the Postal Service through Web-based initiatives. In addition, the Postal Service implemented a national Business Mailer Support (BMS) database to monitor Special Postage Payment Systems (SPPS) agreements at all units. The Postal Service continuously updates the data to enhance oversight and effectiveness in this area.

Objectives, Scope, and Methodology

The objectives of our audits were to determine whether the 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 unannounced audit fieldwork from December 2005 through September 2006 at 100 statistically selected sites that represented \$4.2 billion in revenue for FY 2005. (Appendix A lists the 100 statistically and two judgmentally selected sites.²) We randomly selected and reviewed business mail and Periodicals postage statements generated for specific reporting periods during FY 2006.

We also reviewed authorizations for all nonprofit mailers and Periodicals publications. We observed mail acceptance, verification, and clearance processes and reviewed all SPPS agreements in effect at each BMEU. In addition, we reviewed operations at associated detached mail units (DMU).

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 used Postal Service instructions, manuals, policies, and procedures as criteria to evaluate internal controls and data reliability. We also evaluated whether management implemented the internal control structure over the financial reporting and safeguarding of assets as designed. We interviewed supervisors and employees and observed operations at the Postal Service sites.

We conducted these audits from October 2005 through February 2007 in accordance with generally accepted government auditing standards and included tests of internal controls we considered necessary under the circumstances. We conducted the fieldwork for transactions that occurred in FY 2006. We discussed our observations and conclusions with management officials and included their comments where appropriate. We issued individual reports to management at each selected BMEU.

² Appendix A contains a listing of the 102 BMEUs selected. [REDACTED], and [REDACTED], were judgmentally selected BMEU sites and were not included in the nationwide statistically selected findings.

Prior Audit Coverage

We evaluated all findings the OIG reported in FYs 2001 through 2005 and the Postal Inspection Service provided in individual site reports from FYs 1999 through 2000. We reported the status of the OIG's recommendations in the individual site reports to the district managers.

AUDIT RESULTS

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. However, we identified various internal control and compliance issues related to managing customer accounts and eligibility requirements; accepting, verifying, and clearing the mail; monitoring SPPS agreements and protecting Postal Service revenue; and following general operating procedures.³ We discuss these areas below.

Customer Accounts and Eligibility Requirements

We reported overall compliance issues related to customer accounts and eligibility requirements. Specifically, we reported issues related to inactive customer advance deposit accounts; mailings accepted at Nonprofit and Periodicals rates; master trust account balances; and Periodicals publication procedures.

Inactive Customer Advance Deposit Accounts Were Not Closed

At 52 BMEUs, technicians did not follow required procedures to close 762 inactive customer accounts totaling \$755,393.⁴ Technicians should have either refunded requested balances to customers or transferred balances to miscellaneous non-postal revenue. This occurred because employees were unaware of or did not fully understand the requirements. There is an increased risk that someone could tamper with inactive accounts and improperly disburse funds when units do not follow procedures.

Mailings Were Accepted at Nonprofit and Periodicals Rates Without Proper Authorization

At eight BMEUs, employees accepted mailings at the Nonprofit Standard Mail rate for 45 mailers who did not have authorization from the PCSC to mail at the reduced rate.⁵ There was a difference of \$3,394 between the standard rate and Nonprofit rate. This occurred because of time constraints or other priorities. In addition, employees at five BMEUs accepted mailings at the Periodicals rate for

³ Appendix B contains the sample design, separate projections for each category with internal control deficiencies, and detailed findings identified at each installation.

⁴ Handbook F-1, *Post Office Accounting Procedures*, Section 631.2, November 1996 (updated with *Postal Bulletin* revisions through June 9, 2005) and Domestic Mail Manual (DMM) 300, *Mailing Standards for the U.S. Postal Service*, Sections 707.29.3.3 and 707.29.5.1, updated November 9, 2006.

⁵ DMM 300, Section 703 and Publication 417, *Nonprofit Standard Mail Eligibility*, Section 3-1.6.3, October 1996.

10 mailers who did not have authorization to mail at the reduced rate.⁶ This occurred because employees were unaware of or did not fully understand the requirements. There was a difference of \$29,478 between the standard rate and Periodicals rate the customers were charged. The Postal Service loses revenue when mailers receive discounted rates without approval.

Master Trust Account
Balances Were Not
Reconciled or
Monitored

At 19 BMEUs, unit personnel did not reconcile over \$263,000 in differences between master trust balances and balances maintained in the Accounting Data Mart.⁷ Employees said they did not know how to perform this task. The Postal Service has an increased risk that financial records will misstate assets, liabilities, and revenue when units do not reconcile master trust account balances.

Further, at seven BMEUs, employees did not monitor customer trust accounts and accepted mailings from accounts that did not have sufficient funds to cover the mailings.⁸ This occurred because management provided insufficient oversight. The Postal Service is at risk of revenue loss when it does not properly monitor trust accounts and customers do not pay postage before mailings are processed.

Periodicals Publication
Procedures Were Not
Followed

BMEU employees did not always monitor customers to ensure they met the requirements to receive Periodicals rates. Employees stated they did not follow Periodicals policies primarily because they were unaware of or did not fully understand the requirements. The Postal Service has less assurance that publications meet required standards for reduced Periodicals rates when units do not conduct annual reviews and publishers do not submit Postal Service (PS) Forms 3526, Statement of Ownership, Management, and Circulation. As a result, the Postal Service could experience a loss of revenue. Specifically:

- At 25 units, employees did not conduct required annual advertising percentage reviews for Periodicals publications.⁹

⁶ DMM 300, Sections 707.5.2.1 and 707.8.3.4.

⁷ *PostalOne! Reconciliation Instructions for Balancing with SAFR*, Reconciliation Process, March 23, 2006 and Handbook F-1, Section 512.4.

⁸ Handbook F-1, Section 512.22.

⁹ DMM 300, Sections 707.17.4.4 and 707.17.4.5.

- At 24 units, employees did not conduct required annual postage payment/zone accuracy reviews.¹⁰
- At 10 units, employees did not input publisher data from PS Form 3526 to PostalOne!.¹¹ Moreover, at nine units, employees did not fill out the form correctly or timely.¹²
- At five units, employees did not conduct eligibility reviews for publishers who filed PS Forms 3526 with a paid/requested circulation of 60 percent or less, as required by Postal Service policy.¹³

Mail Acceptance, Verification, and Clearance Procedures

We reported overall compliance issues related to mail acceptance, verification, and clearance procedures. Specifically, we reported issues related to postage statement completion, and mail acceptance, verification, and clearance.

Postage Statements Were Not Properly Completed

Employees did not properly complete permit and Periodicals postage statements, as required.¹⁴ There were several reasons why employees did not follow the policies, including: insufficient management oversight, time constraints, or other job priorities. As a result, the Postal Service has less assurance that mailings BMEUs accept and release meet standards. Specifically:

- At 37 units, employees did not complete all Postal Service sections of the postage statements.
- At 34 units, employees did not verify that mailers completed their sections of the postage statement.
- At 29 units, it took employees between 3 and 52 days to post the revenue to mailers' accounts.

¹⁰ Handbook DM-109, *Business Mail Acceptance*, Chapter 6, Sections 692.1 and 692.5, September 2006.

¹¹ Management letter from Postal Service Headquarters, dated September 30, 1998.

¹² Handbook DM-203, *Periodicals Eligibility Review*, Section 1-3.1a, September 2000 and DMM 300, Sections 707.8.3.1 and 707.8.3.4.

¹³ Handbook DM-203, Section 1-1 and Handbook DM-109, Chapter 6, Section 691.1.

¹⁴ Handbook DM-109, Chapter 3.

- At 14 units, employees did not round stamp and sign the postage statements.

Required Acceptance, Verification, and Clearance Procedures Were Not Followed

At 33 BMEUs and four associated DMUs, personnel did not always follow required acceptance, verification, and clearance procedures for mailings.¹⁵ Employees did not follow the policies because they were unaware of or did not fully understand the requirements. This reduces the Postal Service's assurance that the condition of mailings the units accept meets standards and that customers pay the appropriate postage fees. During our reviews, we observed:

- Employees did not verify the contents were eligible for rates claimed by opening and examining one of the mailpieces, except First-Class™.
- Employees did not always verify that publishers provided associated postage statements prior to accepting and processing Periodicals mailings.
- Employees did not sign and date PS Forms 3607, Weighing and Dispatch Certificate; provide copies to the customer; or include copies with mailings staged for Operations.
- Employees did not randomly check the size and legibility of labels, verify that annual mailing fees were paid and sufficient funds were on deposit, or determine whether the mailer sorted the mail to the appropriate level and used barcoded tray/sack labels for automation mailings.

Special Postage Payment System Agreements and Revenue Protection

We reported overall compliance issues related to SPPS agreements and revenue protection. Specifically, we reported issues related to SPPS agreement procedures; bypass mail logs; annual business mail permit fees; and missing postage statements.

Special Postage Payment System Agreement Procedures Were Not Followed

BMEU employees did not review and monitor SPPS agreements, as required. When SPPS agreements are not valid or mailers' systems do not produce qualified mail consistent with standards and regulations, the Postal Service may lose revenue. Specifically, we found:

¹⁵ Handbook DM-109, Chapter 3.

- At 11 units, employees did not verify that agreements were complete, valid, and current.¹⁶ Employees stated this occurred because the resources needed to perform the task were not available.
- At seven units, employees did not always ensure mailers complied with the terms of the agreements.¹⁷ For example, employees did not perform weekly comparisons of an Optional Procedure Mailing System mailer's records to unit records, verify any mailings from a manifest mailer, complete the Quarterly Manifest Mailing System Accuracy Worksheet, or perform subsequent required verifications when a mailing did not meet the prescribed accuracy levels. Employees said this occurred because they were unaware of or did not fully understand the requirements.

Bypass Mail Log Was Not Established or Maintained	At 11 BMEUs, employees did not establish, monitor, or maintain a Bypass Mail Log on mailings authorized to mail at the units. ¹⁸ These mailings entered into the mailstream without proper acceptance and verification. Employees said this occurred because they were unaware of or did not fully understand the requirements. The Postal Service is at risk of not collecting all associated revenue from customers when mail bypasses BMEU acceptance procedures.
Business Mail Annual Fees Were Not Collected	At nine BMEUs, employees accepted mailings from customers who had not paid their annual fees. ¹⁹ As a result, business mailers were allowed to mail with expired permits. This occurred because management provided insufficient oversight. The Postal Service will not realize all revenue if employees do not collect annual fees.
Missing Postage Statements Were Not Monitored	At five BMEUs, employees did not monitor breaks in Periodicals publishing frequencies to determine whether postage statements were missing. ²⁰ This occurred primarily because employees were unaware of or did not fully understand the requirements. The Postal Service is at risk

¹⁶ DMM 300, Sections 705.2.4.6, 705.3.2, 705.4.2, and 705.5.1.10.

¹⁷ Publication 401, *Guide to the Manifest Mailing System*, Chapters 3 and 9, June 2002 and Publication 407, *Optional Procedure Mailing System*, January 2003.

¹⁸ Handbook DM-109, Chapter 2, Section 247 and Chapter 3.

¹⁹ Handbook F-1, Section 732 and Notice 123, *Ratefold*, page 14, effective January 8, 2006.

²⁰ DMM 300, Section 707.4.6.

of not recognizing revenue when employees do not monitor for missing postage statements.

General Operating Procedures Were Not Followed

Business Mail Acceptance and Business Mailers support personnel at U.S. Postal Service Headquarters requested the OIG to review specific issues during our FY 2006 audits. Based on these requests, we identified issues concerning general operating procedures. When employees do not follow required operating procedures, the Postal Service has reduced assurance that the conditions of the accepted mailings meet standards and that customers pay the appropriate postage fees.

- Nine units did not have or provide a scale for weight verification, properly test the scale, or calibrate the scale on an annual basis.²¹ This occurred because employees were unaware of or did not fully understand the requirements.
- Nine units did not use the random selection list and Mail Evaluation Readability Lookup INstrument (MERLIN) worksheets for selecting trays of mail to verify on MERLIN, or always perform the verifications at the proper frequencies.²² Employees stated time constraints prevented them from following procedures.
- Five units did not maintain a current BMEU operating profile and six units did not maintain an operating profile for each DMU.²³ Employees said this occurred because they were unaware of or did not fully understand the requirements.
- Mailers at two DMUs did not provide BMEU employees with an enclosed, secured work area or a telephone.²⁴ One employee stated he was not aware that mailers were required to provide an enclosed work area and could not provide a reason for technicians not having access to a telephone.

²¹ Publication 407, Section 6-5 and Handbook DM-109, Exhibit 262.3 and Section 265.2.

²² *MERLIN Operations Training for Operators Manual*, Course #57601-04, NSN 7610-05-000-4900, Appendix E, January 2003 and Handbook DM-109, Section 335.

²³ Handbook DM-109, Section 231.

²⁴ Handbook DM-109, Section 262.2.

Recommendation	<p>We recommend the Vice President, Customer Service, and the Vice President, Pricing and Classification:</p> <ol style="list-style-type: none">1. Reinforce policies and procedures for managing customer accounts and eligibility requirements; accepting, verifying, and clearing mail; monitoring special postage payment system agreements; protecting Postal Service revenue; and following general operating procedures.
Management's Comments	<p>Management agreed with the findings and recommendation and stated they will incorporate the information into their Business Mail Acceptance training and communication efforts, which will include correspondence, Web casts, newsletters, and the revised DM-109, <i>Business Mail Acceptance</i>, that was published in September 2006.</p>
Evaluation of Management's Comments	<p>Management's comments are responsive to the recommendation. Management's actions taken or planned should correct the issues identified in the findings.</p>

[illegible]

Redacted

[illegible]

APPENDIX B

AUDIT RESULTS, STATISTICAL SAMPLING, AND PROJECTIONS

In support of the objectives, the audit team employed a stratified random sample of BMEUs. The sample design allows statistical projection of the number of units having the types of internal control deficiencies that were the subject of the audit. We made separate projections for each category with internal control deficiencies. The audit universe consisted of 2,042 BMEUs with revenues above \$100,000. We obtained the universe information from the Standard Field Accounting Unit Revenue Data Access database.

We sampled 100 BMEUs as a stratified attributes design further allocated to each of four revenue-based strata. The sample size of 100 is equivalent to that required to achieve a 5 percent risk of over-reliance (Beta Risk) and a tolerable error rate of 5 percent allowing for one error for compliance testing.

We calculated the point estimate of the total number of deviations, as well as the associated confidence interval. Based on the sample results, we project the following, with a 95 percent confidence level:

	Sites with the Reported Finding	Lower Limit Estimate²⁵	Unbiased Point Estimate²⁶	Upper Limit Estimate²⁷
Customer Accounts and Eligibility Requirements:				
The unit accepted mail at Nonprofit rates without authorization.	8	8 (0%)	194 (9.50%)	346 (16.95%)
The unit accepted Periodicals mailings at Periodical rates without authorization.	5	5 (0%)	90 (4.43%)	224 (10.98%)
The unit did not put PS Form 3526 into PostalOne!.	10	94 (4.59%)	225 (11.03%)	356 (17.46%)
The unit did not verify that mailers filed PS Form 3526 correctly or in a timely manner.	9	9 (0%)	184 (9.01%)	334 (16.34%)
The unit did not conduct eligibility reviews.	5	5 (0%)	98 (4.79%)	226 (11.09%)
The unit did not conduct postage payment/zone accuracy reviews or properly document them.	24	302 (14.80%)	467 (22.86%)	631 (30.92%)
The unit did not verify advertising percentages.	25	352 (17.25%)	530 (25.97%)	709 (34.70%)

²⁵ This is the lower limit estimate of the number of deviations (units) in which the condition may exist. When the lower limit estimate is less than the number observed in the sample, the observed number is presented in the table as the lower limit.

²⁶ This is the point estimate of the total number of deviations (units) in which the condition may exist.

²⁷ This is the upper limit estimate of the number of deviations (units) in which the condition may exist.

	Sites with the Reported Finding	Lower Limit Estimate²⁵	Unbiased Point Estimate²⁶	Upper Limit Estimate²⁷
The unit did not close inactive business mail, Periodicals, or Business Reply Mail/Postage Due advance deposit accounts and/or refund balances.	52	822 (40.26%)	1,025 (50.18%)	1,227 (60.09%)
The unit did not transfer funds from a Periodicals pending-denied customer account and recognize the amount as revenue.	1	1 (0%)	20 (0.99%)	131 (6.43%)
The unit did not reconcile master trust balances in Accounting Data Mart with balances the unit maintained.	19	240 (11.74%)	403 (19.75%)	567 (27.75%)
The unit did not monitor customer trust accounts and accepted mailings from accounts that did not have sufficient funds to cover the mailings.	7	7 (0%)	134 (6.58%)	272 (13.30%)
The unit did not have authorization letters on file allowing publishers to pay postage at the end of each month.	1	1 (0%)	17 (0.83%)	125 (6.14%)
Mail Acceptance, Verification, and Clearance Procedures:				
The unit was missing business mail and Periodicals postage statements.	1	1 (0%)	26 (1.28%)	142 (6.94%)
The unit did not verify that mailers completed their sections of the permit/business mail postage statement.	34	498 (24.40%)	694 (33.97%)	889 (43.54%)
The unit did not complete the U.S. Postal Service sections of the permit/business mail postage statement.	34	481 (23.58%)	675 (33.06%)	869 (42.54%)
The unit did not round stamp and sign the permit postage statement.	13	141 (6.89%)	284 (13.92%)	428 (20.96%)
The unit did not correctly record required information from the permit/business mail postage statement in PostalOne!.	3	3 (0%)	63 (3.10%)	189 (9.28%)
The unit did post data from the permit/business mail postage statement to the mailer's account within a reasonable amount of time.	27	394 (19.32%)	577 (28.26%)	760 (37.20%)
The unit did not use PS Form 6116, First-Class Metered Mail – Shortpaid Sampling Worksheet, when sampling First-Class metered mail.	1	1 (0%)	26 (1.28%)	142 (6.94%)
The unit did not verify that publisher/customers completed their sections of the Periodicals postage statement.	11	11 (0%)	198 (9.69%)	351 (17.19%)
The unit did not complete the U.S. Postal Service section for weight per copy on the Periodicals postage statement.	12	113 (5.53%)	249 (12.20%)	385 (18.86%)
The unit did not round stamp and sign the Periodicals postage statement.	4	4 (0%)	104 (5.12%)	240 (11.77%)

	Sites with the Reported Finding	Lower Limit Estimate²⁵	Unbiased Point Estimate²⁶	Upper Limit Estimate²⁷
The unit did not post data from the Periodicals postage statement to the mailer's account within a reasonable amount of time.	17	230 (11.26%)	386 (18.88%)	541 (26.50%)
During our observations, the unit did not accept mail according to Postal Service instructions at the BMEU.	33	518 (25.39%)	714 (34.98%)	910 (44.57%)
The unit accepted cash for mailings.	4	4 (0%)	78 (3.80%)	203 (9.92%)
The unit did not enter the MERLIN disqualified mailings in the weekly MERLIN Report.	4	4 (0%)	55 (2.70%)	174 (8.50%)
The BMEU supervisor instructed a technician to enter his logon identification and password so the supervisor could access the MERLIN system to perform mailer verification.	1	1 (0%)	17 (0.83%)	125 (6.14%)
The postmaster shared another employee's logon identification and password in order to access PostalOne! to enter postage statements in the system.	1	1 (0%)	26 (1.28%)	142 (6.94%)
During observations at DMUs, the unit did not accept mail according to Postal Service instructions.	4	4 (0%)	55 (2.70%)	174 (8.50%)
The mailer at the DMU used Postal Service equipment without authorization.	1	1 (0%)	17 (0.83%)	125 (6.14%)
The unit did not follow Postal Service policies and procedures for controlling business mail accepted at Convenience Deposit Points (CDP) and forwarded to the unit for processing. For example, unit clerks did not ensure that CDPs assigned to the unit sent daily BMEU dispatch logs and/or negative response reports to the unit.	2	2 (0%)	34 (1.66%)	146 (7.13%)
SPPS Agreements and Revenue Protection:				
The unit did not have SPPS agreement authorizations on file or have current agreements.	11	11 (0%)	129 (6.33%)	258 (12.63%)
The unit did not always attach quality control standards to SPPS agreements or conduct quality control checks.	2	2 (0%)	34 (1.66%)	146 (7.13%)
The unit allowed a customer to become a manifest mailer without meeting minimum volume requirements and without an approved minimum volume reduction program.	1	1 (0%)	17 (0.83%)	125 (6.14%)
The unit did not ensure the security of assets or the safety of its employees.	2	2 (0%)	43 (2.11%)	163 (7.97%)
The unit did not comply with SPPS agreements and value-added refund mailings.	7	7 (0%)	125 (6.13%)	254 (12.44%)

	Sites with the Reported Finding	Lower Limit Estimate²⁵	Unbiased Point Estimate²⁶	Upper Limit Estimate²⁷
The unit did not acquire and maintain exceptional dispatch support documentation.	1	1 (0%)	20 (0.99%)	131 (6.43%)
The unit released manifest mailings into the mailstream without verification.	2	2 (0%)	43 (2.11%)	163 (7.97%)
The district's business mail entry (BME) office did not conduct semiannual reviews of the operations of the Optional Procedures mailer and the administering post office.	1	1 (0%)	17 (0.83%)	125 (6.14%)
The district's BME office did not conduct an annual review of the Manifest Mailing System.	2	2 (0%)	46 (2.27%)	169 (8.26%)
The unit did not sample manifest mailings at the prescribed frequency.	1	1 (0%)	20 (0.99%)	131 (6.43%)
District personnel authorized free pickup service for SPPS agreement mailers without determining whether the service was mutually beneficial to the mailer and the Postal Service.	2	2 (0%)	43 (2.11%)	163 (7.97%)
The unit did not collect all pickup service fees due the Postal Service.	2	2 (0%)	34 (1.66%)	146 (7.13%)
The unit did not use or maintain a Bypass Mail Log or have a process in place to identify bypassed mail.	11	11 (0%)	202 (9.89%)	353 (17.29%)
The unit did not monitor for missing Periodicals postage statement/frequency breaks.	5	5 (0%)	75 (3.69%)	199 (9.74%)
The unit did not notify customers and/or PCSC when publishers did not meet their stated publication frequency.	1	1 (0%)	17 (0.83%)	125 (6.14%)
The unit did not verify, collect, or record annual business mail fees.	9	9 (0%)	168 (8.23%)	316 (15.47%)
General Operating Procedures:				
The unit did not maintain a current BMEU operating profile.	5	5 (0%)	97 (4.76%)	228 (11.18%)
The unit did not maintain an operating profile for each DMU.	6	6 (0%)	112 (5.46%)	241 (11.82%)
Mailers at DMUs did not provide BMEU employees with an enclosed, secured work area, or a telephone.	1	1 (0%)	1 (0.05%)	105 (5.13%)
The unit did not have or provide a scale for weight verification, properly test the scale, or calibrate the scale on an annual basis.	9	9 (0%)	130 (6.36%)	258 (12.66%)
The unit did not use the random selection list and MERLIN worksheets for selecting trays of mail to be verified on MERLIN or always perform the verifications at the proper frequencies.	9	9 (0%)	165 (8.07%)	311 (15.25%)

APPENDIX C. MANAGEMENT'S COMMENTS

SUSAN M. PLONKEY
VICE PRESIDENT, CUSTOMER SERVICE



February 5, 2007

JOHN E. CIHOTA

SUBJECT: Response to Audit Report – Fiscal Year 2006 Financial Installation Audit – Business Mail Entry Units (Report Number AF-FF-07-DRAFT)

Thank you for the opportunity to respond to the findings in your draft Fiscal Year (FY) 2006 Financial Installation Audit of Business Mail Entry Units (BMEUs) (Report Number AF-FF-07-DRAFT). In principle, management agrees with the findings in this report.

The attached document contains our overall responses to the recommendation and specific findings.

We will incorporate these findings and recommendations into our Business Mail Acceptance (BMA) training and communications efforts, which include correspondence, Web casts, newsletters, and the revised Handbook DM-109, *Business Mail Acceptance*, that was published in September 2006. We also request that the district manager be copied on all future Office of Inspector General (OIG) audits/reviews of associate offices.

We wish to make a point of exception regarding terminology. From our business perspective, all Post Offices are able to establish business mail advance deposit accounts, and accept and process payments for business mailings. Many of the sites identified in this report are identified as BMEUs because they utilize technology (*PostalOne!* system) for their acceptance processing. However, these offices are not BMEUs in that their business function is not solely the acceptance of workshare business mailings. Some primary differences between BMEUs and Post Office locations accepting business mail are their constraints in staffing expertise, amount of training authorized, access to equipment, and accessibility to support staff that the BMEUs have. In the truest sense, many of these offices are retail units that accept business mailing as a part of their operation. However, we are committed to providing support wherever possible and finding solutions that will enable these sites to improve upon business processes that ensure the protection of postal revenues.

We believe the facility-specific breakdown of revenue for FY2005 in the chart in Appendix A, pages 11-13 of your report, is proprietary information and should not be disclosed on the OIG Web site. This is commercially sensitive information that would not be good business practice to disclose. We would not disclose this information in response to a Freedom of Information Act (FOIA) request, and any disclosure on the OIG website could be considered a waiver of any exemptions from disclosure we would be permitted to use under FOIA.

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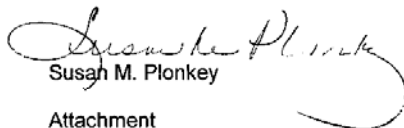
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As background, the FOIA generally requires government agencies to disclose records within their possession. However, the FOIA contains several exemptions that permit agencies to withhold certain records. See 5 U.S.C. § 552(b)(1)-(9).

We believe the facility-specific revenue breakdowns would be exempt from disclosure pursuant to FOIA Exemption 3. Exemption 3 provides that agencies may withhold records that are exempt from disclosure by another statute which, "(B) establishes particular criteria for withholding or refers to particular types of matters to be withheld." 5 U.S.C. § 552(b)(3). Section 410(c)(2) of Title 39, U.S. Code, provides that "information of a commercial nature, including trade secrets, whether or not obtained from a person outside the Postal Service, which under good business practice would not be publicly disclosed" is exempt from the disclosure requirements of the FOIA. This section was enacted as part of the Postal Reorganization Act, 39 U.S.C. §§ 101 et seq., (1970), which established the Postal Service as an independent establishment of the Executive Branch and generally directed it to conduct its operations in accordance with sound business principles. Section 410(c)(2) operates both independently and as an exempting statute within the scope of Exemption 3(B).

To determine what constitutes "good business practice" under § 410(c)(2), courts consider the customs of "the commercial world, management techniques, and business law, as well as the standards of practice adhered to by large corporations." National Western Life Ins. Co. v. United States, 512 F. Supp. 454, 459 (N.D. Tex. 1980). The Postal Service may withhold information of a commercial nature if large businesses would do the same. Wickwire Gavin, P.C. v. United States Postal Service, 356 F.3d 588 (4th Cir. 2004). We do not believe that a large corporation would release facility-specific revenue information broken down by location, as this information could prove useful for competitors looking for markets to expand into; thus, such information would be properly withheld from disclosure under Exemption 3 and 39 U.S.C. § 410(c)(2). Therefore, the revenue information in Appendix A should be withheld from publication on the OIG Web site so as not to waive the ability of the Postal Service to withhold the information from disclosure in response to FOIA requests.

If we can be of any further assistance or clarify this response, please do not hesitate to contact Bob Galaher, Manager, Business Mail Acceptance, at (202) 268-7018.


Susan M. Plonkey
Attachment

Customer Service Response to Audit Report – Fiscal Year 2006 Financial Installation Audit –
Business Mail Entry Units (Report Number AF-FF-07-DRAFT)

Recommendation:

Reinforce policies and procedures for managing customer accounts and eligibility requirements; accepting, verifying, and clearing mail; monitoring special postage payment system agreements; protecting Postal Service revenue; and following general operating procedures.

Management agrees with the OIG recommendation to reinforce policies and procedures. Management has undertaken a number of technological efforts that will address some of the OIG findings. These efforts include, but are not limited to:

- Development of a Nonprofit Standard Mail application process through the *PostalOne!* system. The system will reduce opportunity for mailings to be accepted without proper authorization in FY2008.
- Development of interface between Point of Sale (POS) ONE retail system and the *PostalOne!* system will automate the posting of financial transactions between the retail window and advance deposit accounts in the *PostalOne!* system. Interface will eliminate duplicate entry of trust account deposits and fees and will reduce out of balance situations and simplify the reconciliation process (effective February 27).
- Development of Periodicals application process in the *PostalOne!* system (FY2008 – FY2009). The *PostalOne!* system will provide better control and oversight of Periodicals publications review procedures.
- Management is engaged in promotion of electronic submission of postage statements through the *PostalOne!* system. The Postage Statement Wizard (PSW) has been developed for mailers currently submitting hand-written statements. Every district is involved with bringing mailers on to PSW. The *PostalOne!* system is also capable of receiving electronic postage statements through mail.dat files from our largest mailers. A Web services application is available for mid-range mailers to submit statements and documentation electronically. Validations are built into each of these applications to prevent improper completion of the statements. These actions will reduce the number of hard copy statements and reduce errors in completion and calculations.
- Handbook DM-109, *Business Mail Acceptance*, was updated and published on October 1, 2006. The revised publication better outlines procedures for acceptance and verification. Field training was provided in November 2006.
- Business Mailer Support (BMS) conducts scheduled audits of special postage payment systems. A new reporting mechanism is being implemented in FY2007 which will measure the resolution of the findings by the administering Post Office/district. A report will be issued by BMS to the pertinent area marketing manager and district marketing manager describing the district's performance in resolving findings of BMS audits of special postage payment systems. Districts will be accountable for resolving findings within 60 days of reporting. This tool will provide a measurable means for BMS to manage the district's performance regarding the administration of special postage payment systems and should decrease the instances of non-performance by the administering Post Office/district (May 2007).
- Management distributes a weekly electronic Business Mail Entry newsletter. The newsletter contains actionable articles related to field acceptance and verification and financial procedures. Management will expand distribution to include any office with findings from the OIG audit.