



March 16, 2007

PRITHA MEHRA  
MANAGER, MARKETING TECHNOLOGY AND CHANNEL MANAGEMENT

SUBJECT: Audit Report – Annual Mailing Fee Sharing – Package Services  
(Report Number FF-AR-07-118)

This report presents the results of our audit of annual mailing fees for package services (Project Number 06BD002FF106). This work was initiated as a result of issues brought to our attention during our fiscal year 2006 Financial Installation Audit of the [REDACTED] Business Mail Entry Unit (BMEU) (Project Number 06BD002FF102).

### **Background**

The U.S. Postal Service collects annual mailing fees from customers who mail certain classes of matter at discounted mailing rates. The *Domestic Mail Manual*<sup>1</sup> (DMM) sets forth the fee structure as follows:

<b>Annual Mailing Fees (per 12-month period)</b>	
First-Class Presort, per office of mailing	\$160
Standard Mail®	\$160
Parcel Select	\$160
Presorted Media Mail	\$160
Presorted Library Mail	\$160
Bound Printed Matter: destination entry	\$160

The DMM does not specifically allow for fees for package services (including Parcel Select, Presorted Media Mail, Presorted Library Mail, and Bound Printed Matter: destination entry) or Standard Mail to be paid once and shared among all permit imprint accounts<sup>2</sup> held by the same owner. For example, if a company has five permit imprint accounts for Presorted Media Mail, and they are going to mail using each permit imprint, then a separate annual mailing fee must be paid for each of the five permit imprint accounts. However, a First-Class Presort mailing fee may be paid once and shared

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<sup>1</sup> DMM 300, Rates and Fees Reference, November 2006.

<sup>2</sup> A mailer may be authorized to mail material without affixing postage when payment is made at the time of mailing from a permit imprint advance deposit account. This payment method may be used for postage and extra service fees for First-Class Mail®, Standard Mail®, and Package Services.

across permit imprints ‘owned’ by customers with no business association. For example, if a company has five permit imprint accounts and they are going to mail First-Class (presorted) mailings using each of those permit imprints, they can pay the annual mailing fee once and share that fee with the other four permit imprint accounts.

Mailers must establish a mailing permit – permit imprint, precanceled stamp, meter stamp (depending on the postage method they choose to use) – and may choose to establish an advance deposit account(s) from which postage, per piece charges, and other fees are deducted. For certain extra services, an advance deposit account is required. Mailers may also elect to participate in the Centralized Account Processing System (CAPS), which is an electronic postage payment system whereby customers pay postage for mailings at multiple post offices through a centralized account instead of maintaining trust accounts at each post office. CAPS was created primarily for high-volume customers and customers with multiple mailing permits. CAPS accounts may be used to pay for products and services, including First-Class Mail, Standard Mail, Package Services, International Mail, and business reply mail. To qualify for a CAPS account, customers must have either three permits in two or more post offices and revenue of \$10,000 per year; three or more permits in one location and revenue of \$50,000 per year; or permit revenue of \$500,000 per year. CAPS automatically deducts annual presort mailing and accounting fees for accounts linked to CAPS. Fees for customers who do not participate in CAPS are paid at their local BMEU and are tracked through the PostalOne! System.

### **Objective, Scope, and Methodology**

The objective of our audit was to determine whether appropriate mailing fees were being collected for package services, including Parcel Select, Library Mail, Media Mail, and Bound Printed Matter: destination entry. To accomplish this objective, we performed fieldwork from August 25 through November 27, 2006. We reviewed all CAPS fee payments from March 1, 2005, through August 25, 2006. We also judgmentally selected and reviewed fee payment data for 10 BMEUs, including the Pewaukee BMEU.<sup>3</sup>

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. Our procedures were not designed to provide assurance on internal controls. Consequently, we do not provide an opinion on such controls. We used Postal Service instructions, manuals, policies, and procedures as criteria to evaluate internal controls and data reliability. We interviewed Postal Service Headquarters officials as well as those at the Integrated Business Systems Solutions Center.

We conducted this audit from August 2006 through March 2007 in accordance with generally accepted government auditing standards and included such tests of internal

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<sup>3</sup> We judgmentally selected 10 large BMEUs based on revenue.

controls as we considered necessary under the circumstances. We discussed the results of our observations and conclusions with management officials on November 27, 2006, and included their comments where appropriate.

### **Prior Audit Coverage**

The U.S. Postal Service Office of Inspector General (OIG) reviews CAPS as part of the annual Financial Statement and Field Financial audits and has not identified any issues related to CAPS in the past 5 years.

### **Results**

#### **Package Services Annual Fees Incorrectly Shared**

The Postal Service allowed fees to be incorrectly shared among multiple permit imprint accounts for certain classes of mail.<sup>4</sup> Specifically, fees are being shared for CAPS customers who hold multiple permit imprint accounts to mail Parcel Select, Media Mail, Library Mail, and Bound Printed Matter: destination entry at the same BMEU. In addition, we identified instances of this occurring with non-CAPS customers at eight of the 10 BMEUs we judgmentally selected for testing. For example, a customer that holds two permit imprint accounts operating under two different names pays the annual fee for Presorted Media Mail once. That fee payment is shared with the other permit imprint account for Presorted Media Mail, and marked paid, even though no funds have been collected for the second permit imprint account.

This occurred because CAPS was programmed to share fees across multiple permit imprint accounts, similar to the way fees are shared for the First-Class Presort mailing fee. According to an official at the Integrated Business Systems Solutions Center, fee sharing for package services has been the customary practice in CAPS for approximately 10 years. In addition, while the DMM does not specifically allow for fee sharing for package services,<sup>5</sup> there have been inconsistencies in the interpretation of the DMM language regarding fee collection for these services. We obtained clarification on the DMM from Postal Service Headquarters Business Mail Acceptance personnel, who confirmed that the intent of the DMM was that an annual fee would be collected for each permit imprint account mailing at those rates, and the fees would not be shared among multiple associated permit imprint accounts for package services, unlike First-Class Presort.

As a result, the Postal Service has not collected annual fees of \$27,300 for 177 CAPS accounts and \$1,380 for nine locally managed accounts which mailed package services for the period of March 1, 2005, through August 31, 2006. In addition, the other 354 CAPS accounts and 41 locally managed accounts we reviewed had the potential to mail

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<sup>4</sup> Fee sharing means that a fee is paid for a customer's permit imprint account and is marked paid for the customer's other permit imprint accounts, although no revenue was collected.

<sup>5</sup> DMM 300, Sections 363.1.4; 373.1.4; 383.1.4; 453.1.5; 473.1.4; and 483.1.4.

package services without paying the required fees. If corrective action is not taken, the Postal Service may not realize an additional \$44,480 in revenue over the next 2 years. In total, this represents \$73,160 of recoverable revenue loss for the Postal Service, and we will report them as such in our *Semiannual Report to Congress*. Appendix A provides the details regarding the monetary impact identified. We did not calculate the amount of lost revenue Postal Service-wide for the locally managed accounts due to the cost and complexity required to calculate this amount. Management agreed with the findings and recommendations, but did not state their agreement or disagreement with the monetary benefits. Management's comments, in their entirety, are included in Appendix B of this report.

### **Recommendation**

We recommend the Manager, Marketing Technology and Channel Management:

1. Initiate actions to clarify requirements in the Domestic Mail Manual regarding fee collection for package services.

### **Management's Comments**

Management agreed with the finding and recommendation and acknowledged that the Domestic Mail Manual requires clarity for package services. Management will clarify standards for annual mailing fees for package services by May 1, 2007.

### **Recommendation**

We recommend the Manager, Marketing Technology and Channel Management:

2. Initiate a change request to the Integrated Business System Solutions Center for the Centralized Account Processing System to ensure mailing fees for package services are properly collected in accordance with the Domestic Mail Manual.

### **Management's Comments**

Management acknowledged that CAPS allows for fee sharing of package service annual fees. Management agreed to modify CAPS to address this issue by April 30, 2007. In addition, several changes will be made in CAPS to update modules that allow fee sharing and automated fee payment, and to modify reports that generate fee renewal letters and fee expiration notifications.

**Recommendation**

We recommend the Manager, Marketing Technology and Channel Management:

3. Provide instructions to local units regarding the collection of annual fees and fee sharing for package services on non-Centralized Account Processing System accounts.

**Management’s Comments**

Management agreed with our recommendation and stated they will employ a communication and training effort within 60 days to reinforce the standards for mailing fees and fee sharing for all classes of mail to the field business mail entry employees and the CAPS Service Center.

**Recommendation**

We recommend the Manager, Marketing Technology and Channel Management:

4. Evaluate whether collection should be made for the \$27,300 of uncollected annual fees, and initiate actions to collect the fees, if deemed appropriate.

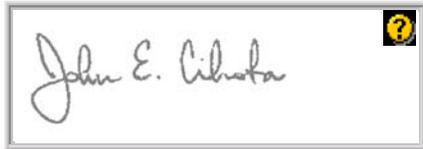
**Management’s Comments**

Management evaluated collection of the unpaid fees and will not pursue collection efforts. Management based their decision on the likelihood that mailers relied on Postal Service direction in regard to fee payment and the administrative costs of pursuing collection may not justify such action.

**Evaluation of Management’s Comments**

Management’s comments are responsive to Recommendations 1 through 4, and actions taken and planned should correct the issue identified in the finding.

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



John E. Cihota  
Deputy Assistant Inspector General  
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Attachments

cc: Anita J. Bizzotto  
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**APPENDIX A. DESCRIPTION OF MONETARY IMPACT**

<b>Rec. No.</b>	<b>Title</b>	<b>Recoverable Revenue Loss</b>	<b>Description</b>
4	Package Services Annual Fees Incorrectly Shared	\$27,300	Uncollected annual fees for 177 CAPS accounts. (102 accounts @ \$150 annual fee plus 75 accounts @ \$160 annual fee)
		44,480	Estimated uncollected fees for CAPS and locally managed accounts for 2 additional years. (139 accounts @ \$160 annual fee for 2 years)
		1,380	Uncollected fees for 9 non-CAPS accounts. (Six accounts @ \$150 annual fee plus three accounts @ \$160 annual fee)
	Total	\$73,160	

## APPENDIX B. MANAGEMENT'S COMMENTS

SUSAN M. PLONKEY  
Vice President, Customer Service



March 2, 2007

KIM STROUD

**SUBJECT: Response to Draft Audit Report – Annual Mailing Fee Sharing – Package Services  
(Report Number FF-AR-07-DRAFT)**

We acknowledge receipt of your Draft Audit Report – Annual Mailing Fee Sharing – Package Services (Report Number FF-AR-07-DRAFT) and thank you for your analysis. Below we have stated our position on the findings and our plan for remediation based on your recommendations.

We acknowledge the findings of your report suggesting fees have been incorrectly shared for Package Service mailings in certain instances. We agree that our Centralized Accounts Processing System (CAPS) allows fee sharing of Package Service annual fees. We will modify the CAPS system to address this issue by April 30. Several changes will be made in CAPS to update modules that allow fee sharing and automated fee payment, and modify reports that generate fee renewal letters and fee expiry notifications.

We acknowledge that while the language around fee sharing in the Domestic Mail Manual (DMM) is clear for First-Class Mail and Standard Mail, it requires greater clarity for Package Services. To address this issue, we will clarify our standards for annual mailing fees for Package Services in the DMM within 60 days. In addition, we will employ a communications and training effort within 60 days to reinforce the standards for mailing fees and fee sharing for all classes of mail to our field Business Mail Entry employees and the CAPS Service Center.

Based on our evaluation, we have determined not to seek collection of uncollected fees. We base this decision on the likelihood that mailers relied on U.S. Postal Service direction in regard to their payment of fees and that the administrative costs of pursuing collection may not justify such action.

Please direct any questions regarding our response to your findings to Robert I. Galaher, Manager, Business Mail Acceptance, at (202) 268-7018.

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