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SUBJECT: Audit Report – Fiscal Year 2007 Financial Installation Audits –
Business Mail Entry Units (Report Number FF-AR-08-131)

This report summarizes the results of financial audits we conducted at 101 statistically selected business mail entry units (BMEU) for fiscal year (FY) 2007 (Project Number 07BD002FF000). We conducted these audits in support of the audit of the U.S. Postal Service's financial statements. The Postal Reorganization Act of 1970 requires annual audits of the U.S. Postal Service's financial statements. Refer to [Appendix A](#) for additional information about this audit.

Conclusion

Based on the items we reviewed at 101 BMEUs, 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 two locations¹ where major segments of business mail entry controls were not effective. In addition, we identified various internal control and compliance issues related to managing customer accounts and eligibility; accepting, verifying, and clearing the mail; monitoring Special Postage Payment System (SPPS) agreements and authorizations; and protecting Postal Service revenue. Although internal controls were generally in place and effective, a significant deficiency existed with the acceptance of mail at BMEUs.² We have reported similar mail acceptance and other compliance issues in several consecutive prior fiscal year reports, and Postal Service management has concurred and agreed to reemphasize policy to the field. Generally, however, these conditions

¹ The sites were [REDACTED], Maryland, and [REDACTED], California.

² Ernst & Young, LLP, the independent public accounting firm contracted to express an opinion on the Postal Service's financial statements, also reported this as a significant deficiency in its *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* (dated November 14, 2007). A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls.

have not improved, and in many instances, they have worsened.³ [Appendix B](#) lists the sites reviewed,⁴ [Appendix C](#) summarizes our analysis of the nationwide findings,⁵ and [Appendix D](#) compares FY 2007 findings to FY 2006 findings and the changes we identified from one year to the next.

We made recommendations to district management addressing the control and compliance issues at each installation. District management's comments were responsive to our findings, recommendations, and \$2.3 million in monetary and \$1.8 million in non-monetary impact. The actions taken or planned should correct the issues identified at these installations. However, without a nationwide corrective action plan that includes measurable goals for reducing the occurrence of these issues, we believe they are likely to continue and worsen. This year we also made five referrals to the U.S. Postal Service Office of Inspector General (OIG) Office of Investigations for situations that warranted further examination.

Mail Acceptance Procedures

Our audits of 101 BMEU sites showed that Postal Service personnel did not follow mail acceptance procedures for mail verifications, completion of postage statements, scale testing and calibration, Mail Evaluation Readability Lookup INstrument (MERLIN) verifications, verification of sufficient funds for mailings, and operating profiles at detached mail units (DMU).⁶ We have reported similar mail acceptance issues in several consecutive prior fiscal year reports. In response to those reports, Postal Service management has concurred with our findings and agreed to reemphasize mail acceptance policies to the field.

Mail Was Not Verified As Required

During our mail observations, we noted mailing personnel did not always follow the required acceptance, verification, and clearance procedures for mailings.⁷ For example, units often received Periodicals mailings during nonbusiness hours, and these mailings were allowed to enter the mailstream without verification. Although employees knew the requirements, they allowed the condition to exist. According to a Headquarters Business Mail Acceptance Marketing Specialist, it is standard operating procedure for BMEUs to process Periodicals mail that is deposited during nonbusiness hours and not

³ For example, the number of units with noncompliance issues related to weight scales and calibration, postage payment and zone accuracy reviews, and SPPS sampling procedures was much higher in FY 2007 than FY 2006. See [Appendix D](#) for additional details on changes in the number of noncompliance issues reported in FYs 2007 and 2006.

⁴ [Appendix B](#) lists the 101 statistically and one judgmentally selected sites.

⁵ [Appendix C](#) does not include the judgmentally selected site in the nationwide statistically selected findings. Of the 101 statistically selected sites, 86 had internal control issues, 13 did not have any conditions that materially affected the reasonableness or fairness of the reported financial data, and two had ineffective controls over major segments of business mail entry operations.

⁶ A DMU is an area in a mailer's facility where postal employees perform mail verification, acceptance, dispatch, and other postal functions.

⁷ Handbook DM-109, *Business Mail Acceptance*, Chapters 3 and 6, dated September 2006.

verified. She said the BMEU should make arrangements with the mailer to verify the publication periodically. As a result, we did not make a recommendation to unit management; however, we continued to report this issue because current criteria require Periodicals to receive an initial verification and do not make an exception for publications delivered during nonbusiness hours. When procedures are not followed, the Postal Service has reduced assurance that the condition of mailings accepted meets standards and that customers pay the appropriate postage.

Employees Were Not Properly Completing Postage Statements

Employees did not properly complete permit and Periodicals postage statements.⁸ There were several reasons why employees did not follow the policies, including insufficient management oversight, inadequate understanding of the requirements, and limited time or other job priorities. When postage statements are not properly completed, the Postal Service has decreased assurance that mailings meet standards and customers pay the correct postage.

Scales Were Not Tested or Calibrated As Required

Employees did not properly test or calibrate scales used to weight verify the mail.⁹ This occurred because of insufficient management oversight. When scales are not tested and calibrated as required, the Postal Service has an increased risk of revenue loss and weight verification errors.

Verification Procedures for Mail Evaluation Readability Lookup INstrument Were Not Followed

Employees did not use the random generator selection list or MERLIN worksheets for selecting trays of mail to be verified.¹⁰ In addition, employees did not always perform the MERLIN verifications at the proper frequencies. This occurred because of insufficient management oversight. When procedures are not followed, the Postal Service has reduced assurance that the condition of mailings meets standards and that customers pay the appropriate postage.

Insufficient Funds to Cover Mailings

Employees did not monitor customer trust accounts, and they accepted mailings from accounts that did not have sufficient funds to cover the mailings.¹¹ We identified more than \$423,000 of insufficient funds. This occurred because management did not provide proper oversight. When customer advance deposit accounts are not verified before mailing, the Postal Service has reduced assurance that all postage is collected.

⁸ Handbook DM-109, Chapter 3.

⁹ Handbook DM-109, Sections 265.2 and 356.11.

¹⁰ Handbook DM-109, Section 335.1.

¹¹ Handbook DM-109, Section 334 (2b).

Detached Mail Units Did Not Maintain Operating Profiles

Employees did not maintain an operating profile at each DMU.¹² This occurred because of insufficient management oversight. When operating profiles are not established and maintained, the Postal Service has reduced assurance that DMUs are functioning according to required procedures.

These issues were reported previously in individual BMEU site reports. Although district management's comments were responsive, headquarters and area managers want unit personnel to take ownership for their actions and be held accountable for any noncompliance. As a result, we are making additional recommendations to ensure that BMEU personnel throughout the Postal Service are aware of their roles and responsibilities as they relate to mail acceptance procedures. If these conditions continue and are not corrected nationwide, the Postal Service has an increased risk that key internal controls over financial reporting may not be operating effectively when implementing requirements of the Sarbanes-Oxley Act of 2002 (PL 107-204, 11 Stat 745).

We recommend the Vice President, Customer Service, and the Vice President, Pricing and Classification:

1. Develop and implement an action plan to measurably reduce the current deficiency and its likelihood of continuing.
2. Provide proper management oversight and instructions to schedule periodic verifications when Periodicals mailings are received during nonbusiness hours.
3. Properly train all employees, including supervisors, who accept business and Periodicals mail.
4. Review existing policies and procedures for consistency.

Management's Comments

Management agreed with our findings and recommendations. To address the issues cited in this report, management is implementing the following:

1. Marketing and Finance personnel created a cross-functional team to identify and implement process changes to strengthen internal controls and to develop and distribute related training and communication materials. Specifically, Financial Control and Support conducted field reviews to identify root causes leading to noncompliance with internal controls associated with

¹² Handbook DM-109, Section 231.

processing postage statements correctly and timely. The team will finalize the review results in March 2008 and use them to identify process improvements. In addition, the team started developing additional management reports to assist managers in monitoring compliance with established procedures. The reports will be available to field managers through the Business Mail Acceptance web site by the end of FY 2008.

2. Marketing plans to evaluate Periodicals acceptance requirements by determining whether it should change policies to accommodate customers while ensuring proper collection of revenues. Until Marketing completes the evaluation at the end of FY 2008, it is reinforcing requirements through communications that local management needs to ensure scheduled verifications occur for Periodicals mailings deposited during non-business hours.
3. Marketing is providing training for Business Mail Entry employees specifically addressing the issues raised in this report. It is currently providing training with area Train-the-Trainer sessions that they plan to complete by April 2008. Marketing will complete all field training by the 4th quarter of this fiscal year.
4. The cross-functional team is updating Handbook DM-109, *Business Mail Acceptance*, to clarify acceptance procedures and to improve consistency. It expects the revised handbook to be available by the end of FY 2008.

We have included management's comments, in their entirety, in [Appendix E](#).

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report, and the corrective actions should resolve the issues. The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

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



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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Beginning in FY 2001, the OIG assumed responsibility for conducting financial audits. These audits include reviews of revenue-generating units, such as BMEUs. 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.

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 mail processing work. 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 day-to-day business. It also allows customers to submit postage statements and other information to the Postal Service through Web-based initiatives. In addition, the Postal Service has implemented a national business mailer support database to monitor 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 audit 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 October 2006 through September 2007 at 101 statistically selected and one judgmentally selected sites that represented approximately \$4.2 billion in revenue for FY 2006. We randomly selected and reviewed business mail and Periodicals postage statements for specific reporting periods during FY 2007.

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 DMUs.

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 2006 through March 2008 in accordance with generally accepted government auditing standards and included tests of internal controls we considered necessary under the circumstances. Those standards require that we plan and perform audit work to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We discussed the results of our audit with management officials on November 28, 2007, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

We evaluated all findings from OIG reports previously issued to applicable FY 2007 audit sites during FYs 2002 through 2006. We reported the status of the recommendations in each of the applicable installation reports issued. Additionally, we issued three headquarters and nine area capping reports during FYs 2004 through 2006 that summarized our installation-level audits. Many of the findings identified in these reports still continue and are addressed in this audit report.

Audit Report Title	OIG Report Number	Report Date
<i>Fiscal Year 2006 Financial Installation Audit – Business Mail Entry Units</i>	FF-AR-07-090	February 15, 2007
<i>Fiscal Year 2005 Financial Installation Audit – Business Mail Entry Units</i>	FF-AR-06-113	March 30, 2006
<i>Fiscal Year 2005 Northeast Area Financial Installation Audits</i>	FF-AR-06-141	April 26, 2006
<i>Fiscal Year 2005 Eastern Area Financial Installation Audits</i>	FF-AR-06-142	April 25, 2006
<i>Fiscal Year 2005 New York Metro Area Financial Installation Audits</i>	FF-AR-06-140	April 24, 2006
<i>Fiscal Year 2005 Pacific Area Financial Installation Audits</i>	FF-AR-06-119	March 30, 2006
<i>Fiscal Year 2005 Great Lakes Area Financial Installation Audits</i>	FF-AR-06-118	March 28, 2006
<i>Fiscal Year 2005 Western Area Financial Installation Audits</i>	FF-AR-06-112	March 23, 2006
<i>Fiscal Year 2005 Capital Metro Area Financial Installation Audits</i>	FF-AR-06-105	March 20, 2006
<i>Fiscal Year 2005 Southeast Area Financial Installation Audits</i>	FF-AR-06-099	March 13, 2006

Audit Report Title	OIG Report Number	Report Date
<i>Fiscal Year 2005 Southwest Area Financial Installation Audits</i>	FF-AR-06-087	March 1, 2006
<i>Fiscal Year 2004 Financial Installation Audit – Business Mail Entry Units</i>	FF-AR-05-065	February 24, 2005

APPENDIX B: BUSINESS MAIL ENTRY UNITS AUDITED AND REPORTS ISSUED NATIONWIDE

	Unit Name	Location	Unit Type	FY 2006 Revenue	OIG Report Number	Monetary Impact ¹³	Non-Monetary Impact ¹⁴
1			BMEU	\$102,315,762	FF-AR-07-077	\$25,321	\$0
2			Associate Office (AO) ¹⁵	3,645,164	FF-AR-08-029	0	0
3	¹⁶		BMEU	6,985,338	FF-AR-07-159	0	0
4			AO	22,640,107	FF-AR-08-008	0	0
5	¹⁷		BMEU	191,003,729	FF-AR-07-087	529,744	288,966
6			AO	134,515	FF-AR-07-030	0	15,647
7	¹⁶		AO	1,045,967	FF-AR-07-044	0	0
8			BMEU/AO	592,774	FF-AR-07-249	0	0
9			BMEU	146,782,231	FF-AR-07-086	3,277	0
10	¹⁶		BMEU	133,698,476	FF-AR-07-201	0	0
11			BMEU	8,861,470	FF-AR-07-088	0	0
12			BMEU	10,853,844	FF-AR-07-064	4,071	8,090
13			AO	146,401	FF-AR-07-143	0	0
14			AO	612,226	FF-AR-07-082	0	0
15			BMEU	177,377,833	FF-AR-07-228	37,928	0
16			BMEU	314,940,320	FF-AR-07-207	330,094	0
17			AO	485,351	FF-AR-07-055	1,428	0
18			DMU	36,475,429	FF-AR-07-112	49,623	0
19			AO	74,185,321	FF-AR-07-046	31,626	0
20			BMEU	79,091,356	FF-AR-07-205	0	4,249
21			AO	572,261	FF-AR-07-214	8,932	708

¹³ For summary purposes only. We included these amounts in the individual reports previously issued.

¹⁴ For summary purposes only. We included these amounts in the individual reports previously issued.

¹⁵ An AO is a post office that reports to a larger post office or is in the service area of a sectional center facility (SCF). It usually receives and dispatches all mail classes from and to the SCF.

¹⁶ Internal controls were in place and effective, and we did not note any conditions that materially affected the reasonableness or fairness of the reported financial data.

¹⁷ 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 or effective except for one key area — customer accounts and eligibility requirements.

	Unit Name	Location	Unit Type	FY 2006 Revenue	OIG Report Number	Monetary Impact ¹³	Non-Monetary Impact ¹⁴
22	[REDACTED] ¹⁶	[REDACTED]	AO	\$302,131	FF-AR-07-066	\$0	0
23	[REDACTED]	[REDACTED]	BMEU	62,588,145	FF-AR-07-182	5,384	0
24	[REDACTED]	[REDACTED]	BMEU	83,996,431	FF-AR-07-100	0	0
25	[REDACTED] ¹⁶	[REDACTED]	AO	2,116,702	FF-AR-07-142	0	0
26	[REDACTED] ¹⁸	[REDACTED]	BMEU	21,494,893	FF-AR-07-189	11,911	46,823
27	[REDACTED]	[REDACTED]	BMEU	68,839,042	FF-AR-07-212	34,224	0
28	[REDACTED]	[REDACTED]	AO	558,631	FF-AR-07-083	46,606	0
29	[REDACTED] ¹⁶	[REDACTED]	BMEU	718,857	FF-AR-07-204	0	0
30	[REDACTED]	[REDACTED]	AO	1,087,356	FF-AR-07-132	1,974	0
31	[REDACTED] ¹⁶	[REDACTED]	AO	41,089	FF-AR-07-176	0	0
32	[REDACTED] ¹⁶	[REDACTED]	BMEU	562,115	FF-AR-07-099	0	0
33	[REDACTED]	[REDACTED]	AO	17,622,348	FF-AR-07-067	0	0
34	[REDACTED]	[REDACTED]	AO	8,041,208	FF-AR-08-005	0	0
35	[REDACTED]	[REDACTED]	AO	40,165,576	FF-AR-07-242	0	60,365
36	[REDACTED]	[REDACTED]	BMEU	11,389,528	FF-AR-07-057	0	0
37	[REDACTED] ¹⁶	[REDACTED]	BMEU	19,555,881	FF-AR-07-119	0	0
38	[REDACTED]	[REDACTED]	BMEU	738,111	FF-AR-07-163	0	0
39	[REDACTED]	[REDACTED]	AO	160,005	FF-AR-07-191	0	1,380
40	[REDACTED]	[REDACTED]	AO	426,852	FF-AR-07-052	0	8,178
41	[REDACTED]	[REDACTED]	AO	6,384,383	FF-AR-07-253	29,806	0
42	[REDACTED]	[REDACTED]	AO	66,936,670	FF-AR-08-003	0	2,307
43	[REDACTED]	[REDACTED]	AO	139,425	FF-AR-07-166	5,076	0
44	[REDACTED]	[REDACTED]	BMEU	54,160,926	FF-AR-07-169	50,980	72,855
45	[REDACTED]	[REDACTED]	AO	103,859	FF-AR-07-063	0	5,241
46	[REDACTED]	[REDACTED]	BMEU	448,852	FF-AR-07-105	4,523	0
47	[REDACTED]	[REDACTED]	AO	341,556	FF-AR-07-074	5,559	15,033
48	[REDACTED]	[REDACTED]	AO	3,012,946	FF-AR-07-050	2,678	0
49	[REDACTED]	[REDACTED]	BMEU	108,038,886	FF-AR-07-155	0	0
50	[REDACTED]	[REDACTED]	BMEU	43,518,157	FF-AR-07-185	2,300	0
51	[REDACTED]	[REDACTED]	BMEU	20,424,133	FF-AR-07-080	0	0

¹⁸ We judgmentally selected this site.

	Unit Name	Location	Unit Type	FY 2006 Revenue	OIG Report Number	Monetary Impact ¹³	Non-Monetary Impact ¹⁴
52			BMEU	\$167,193,259	FF-AR-07-125	\$50,581	0
53			AO	3,932,403	FF-AR-07-085	11,328	101,452
54			BMEU	17,488,330	FF-AR-07-095	72,286	791,436
55			BMEU	96,170,070	FF-AR-07-109	0	0
56			AO	2,516,657	FF-AR-08-018	2,670	0
57			AO	656,452	FF-AR-07-233	4,190	6,463
58			BMEU	1,129,037	FF-AR-07-234	0	0
59	¹⁶		BMEU	164,931,977	FF-AR-07-198	0	0
60			BMEU	5,745,393	FF-AR-07-059	0	0
61			BMEU	57,439,496	FF-AR-07-102	13,435	54,446
62			AO	6,464,821	FF-AR-08-013	2,342	0
63			BMEU	100,187,051	FF-AR-07-167	61,804	0
64			BMEU	68,812,820	FF-AR-07-065	71,449	1,097
65			AO	417,252	FF-AR-07-071	0	2,447
66			AO	83,511	FF-AR-07-128	0	0
67			AO	215,985	FF-AR-08-006	4,312	3,872
68			BMEU	1,171,055	FF-AR-07-051	0	0
69			BMEU	9,517,866	FF-AR-07-054	895	63,800
70			AO	219,826	FF-AR-08-002	0	0
71			BMEU	22,781,019	FF-AR-07-187	0	0
72			BMEU	232,359,670	FF-AR-07-097	97,521	0
73			BMEU	1,756,604	FF-AR-07-193	1,041	0
74			BMEU	121,561,332	FF-AR-07-217	32,367	61,839
75			BMEU	49,103,692	FF-AR-07-098	1,343	0
76			BMEU	176,442,391	FF-AR-07-117	0	0
77			BMEU	27,600,947	FF-AR-07-129	7,120	0
78			BMEU	116,908,783	FF-AR-07-049	6,997	1,639
79			AO	2,157,579	FF-AR-07-235	36,709	12,690
80	¹⁶		BMEU	76,747,101	FF-AR-07-079	0	0
81	¹⁶		AO	87,105	FF-AR-07-181	0	0
82			AO	425,034	FF-AR-07-150	0	0
83			BMEU	3,817,049	FF-AR-07-252	0	0

	Unit Name	Location	Unit Type	FY 2006 Revenue	OIG Report Number	Monetary Impact ¹³	Non-Monetary Impact ¹⁴
84			AO	\$482,663	FF-AR-07-114	\$1,766	15,476
85			AO	123,690,682	FF-AR-07-153	59,389	0
86			BMEU	82,709,177	FF-AR-07-157	42,294	0
87			AO	297,168	FF-AR-07-211	2,955	0
88			AO/DMU	96,728,522	FF-AR-07-168	0	63,174
89			BMEU	75,303,359	FF-AR-07-174	128,524	0
90			AO	1,729,116	FF-AR-07-218	1,488	1,047
91	¹⁹		BMEU	1,586,758	FF-AR-07-032	7,581	6,016
92			AO	444,820	FF-AR-07-047	0	0
93			BMEU	29,527,722	FF-AR-07-108	27,647	0
94	¹⁶		BMEU	33,360,023	FF-AR-07-210	0	0
95			AO	110,592	FF-AR-07-127	0	0
96			AO	418,944	FF-AR-07-072	0	0
97			AO	540,669	FF-AR-07-084	0	0
98			AO	7,353,846	FF-AR-07-190	3,332	0
99			BMEU	54,531,186	FF-AR-07-195	314,605	0
100			BMEU	193,583,085	FF-AR-07-106	0	47,608
101			AO	236,177	FF-AR-07-135	0	0
102			BMEU	36,719,122	FF-AR-07-115	1,314	0
Totals				\$4,231,755,767		\$2,292,350	\$1,774,256

¹⁹ 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 or effective except for one key area — SPPS agreements and authorizations.

APPENDIX C: ANALYSIS OF NATIONWIDE FINDINGS

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 with 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 2,475 units with revenues above \$50,000. We sampled 101 units as a stratified attributes design further allocated to each of three revenue-based strata.²⁰

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.

²⁰ So that we could statistically project the number of units with internal control deficiencies, we did not include the one judgmentally selected location. While we reported compliance issues, we noted compensating controls that allowed us to conclude that, generally, internal controls were in place and effective. These issues were not material to the financial statements and did not affect the overall adequacy of internal controls considered necessary for a financial statement audit. This appendix includes deficiencies that we reported only at six or more sites.

	Lower Bound	Point Estimate	Upper Bound
Description of Internal Control Deficiency	Total (Rate)²¹	Total (Rate)²²	Total (Rate)²³
Customer Accounts and Eligibility Requirements			
The unit did not close inactive business mail or Periodicals advance deposit accounts and refund balances.	1,009 (41%)	1,299 (53%)	1,589 (64%)
The unit did not verify Periodicals advertising percentages or publishing frequencies.	600 (24%)	882 (36%)	1,165 (47%)
The unit did not conduct postage payment and zone accuracy reviews or properly document them.	532 (22%)	809 (33%)	1,085 (44%)
The unit did not verify that mailers filed Postal Service (PS) Form 3526, Statement of Ownership, Management, and Circulation (All Periodicals Publications Except Requester Publications), correctly or in a timely manner.	241 (10%)	417 (17%)	592 (24%)
The unit did not reconcile master trust balances in the Accounting Data Mart with balances maintained by the unit.	122 (5%)	319 (13%)	515 (21%)
The unit accepted mail at nonprofit rates without authorization.	67 (3%)	221 (9%)	374 (15%)
The unit did not conduct Periodicals eligibility reviews.	25 (1%)	172 (7%)	318 (13%)
Mail Acceptance, Verification, and Clearance Procedures			
During our observations, the unit did not accept mail according to Postal Service instructions.	638 (26%)	931 (38%)	1,225 (50%)
The unit did not post data from the permit or business mail postage statement to the mailer's account (PostalOne!) within a reasonable amount of time. (This includes statements not posted and those not posted in a timely manner.)	309 (13%)	564 (23%)	819 (33%)
The unit did not verify that the mailer's sections of the permit or business mail postage statement were completed.	255 (10%)	515 (21%)	774 (31%)
The unit did not complete the Postal Service sections of the permit or business mail postage statement.	267 (11%)	515 (21%)	762 (31%)
The unit did not have or provide a scale for weight verification, properly test the scale, or calibrate the scale annually at the BMEU or DMU.	258 (10%)	515 (21%)	771 (31%)
The unit did not round stamp and sign the permit or business mail postage statement.	145 (6%)	368 (15%)	590 (24%)
The unit did not post data from Periodicals postage statement to the mailer's account (PostalOne!) within a reasonable amount of time. (This includes statements not posted and those not posted in a timely manner.)	96 (4%)	319 (13%)	541 (22%)
The unit did not round stamp and sign the Periodicals postage statement.	48 (2%)	270 (11%)	491 (20%)
The unit did not use the random selection list and MERLIN worksheets to select trays of mail to be verified on MERLIN, and did not always perform MERLIN verifications at the proper frequencies	208 (8%)	245 (10%)	282 (11%)

²¹ The lower bound is the estimated number of deviations (units) in which the condition may exist. When the lower bound is less than the number observed in the sample, the observed number is presented in the table as the lower limit.

²² The point estimate is the estimated total number of deviations (units) in which the condition may exist.

²³ The upper bound is the estimated number of deviations (units) in which the condition may exist.

	Lower Bound	Point Estimate	Upper Bound
Description of Internal Control Deficiency	Total (Rate)²¹	Total (Rate)²²	Total (Rate)²³
The unit did not monitor customer trust accounts and accepted mailings from accounts that did not have sufficient funds to cover the mailings.	166 (7%)	245 (10%)	324 (13%)
The unit did not complete the Postal Service section for weight per copy on the Periodicals postage statement.	24 (1%)	221 (9%)	417 (17%)
The unit did not verify that the publisher or customer sections of the Periodicals postage statement were completed.	7 (.3%)	172 (7%)	370 (15%)
The unit did not attach PS Form 3607, Weighing and Dispatch Certificate, to the permit/business mail postage statement after entering the data in PostalOne!.	22 (1%)	147 (6%)	272 (11%)
The unit did not maintain an operating profile for each DMU.	103 (4%)	147 (6%)	191 (8%)
SPPS Agreements/Authorizations			
The unit did not follow sampling procedures or sample manifest mailings at the prescribed frequency.	87 (4%)	245 (10%)	403 (16%)
The unit did not comply with SPPS agreements and value-added refund mailings.	33 (1%)	172 (7%)	310 (13%)
The unit did not have SPPS mailing authorizations or agreements on file or have current authorizations or agreements.	45 (2%)	147 (6%)	249 (10%)
The unit did not always attach quality control standards to SPPS agreements or conduct quality control checks and reviews at the required frequencies.	96 (4%)	147 (6%)	198 (8%)
Revenue Protection			
The unit did not use or maintain a bypass mail log or have a process in place to identify bypassed mail.	179 (7%)	392 (16%)	606 (25%)
The unit did not monitor for missing Periodicals postage statements (frequency breaks) or review mailing frequencies.	88 (4%)	172 (7%)	255 (10%)

APPENDIX D: COMPARISON OF FY 2007 FINDINGS TO FY 2006 FINDINGS

Description of Internal Control Deficiency	FY 2007 Number of Sites with Finding Sample Size = 101	FY 2006 Number of Sites with Finding Sample Size = 100
Customer Accounts and Eligibility		
The unit did not close inactive business mail or Periodicals advance deposit accounts and refund balances.	53	52
The unit did not verify Periodicals advertising percentages or publishing frequencies.	36	25
The unit did not conduct postage payment and zone accuracy reviews or properly document them.	33	24
The unit did not verify that mailers filed PS Form 3526 correctly or in a timely manner.	17	9
The unit did not reconcile master trust balances in the Accounting Data Mart with balances maintained by the unit.	13	19
The unit accepted mail at nonprofit rates without authorization.	9	8
The unit did not conduct eligibility reviews for Periodicals.	7	5
Mail Acceptance, Verification, and Clearance Procedures		
During our observations, the unit did not accept mail according to Postal Service instructions at the BMEU.	38	33
The unit did not post data from the permit/business mail postage statement to the mailer's account (PostalOne!) within a reasonable amount of time. (This includes statements not posted and those not posted in a timely manner.)	23	27
The unit did not verify that the mailer's completed sections of the permit or business mail postage statement were completed.	21	34
The unit did not complete the Postal Service sections of the permit or business mail postage statement.	21	34
The unit did not have or provide a scale for weight verification, properly test the scale, or calibrate the scale annually at the BMEU or DMU.	21	9
The unit did not round stamp and sign the permit/business mail postage statement.	15	13
The unit did not post data from the Periodicals postage statement to the mailer's account (PostalOne!) within a reasonable amount of time. (This includes statements not posted and those not posted in a timely manner.)	13	17

Description of Internal Control Deficiency	FY 2007 Number of Sites with Finding Sample Size = 101	FY 2006 Number of Sites with Finding Sample Size = 100
The unit did not round, stamp, and sign the Periodicals postage statement.	11	4
The unit did not use the random selection list and MERLIN worksheets to select trays of mail to be verified on MERLIN and did not always perform the verifications at the proper frequencies.	10	9
The unit did not monitor customer trust accounts and accepted mailings from accounts that did not have sufficient funds to cover the mailings.	10	7
The unit did not complete the Postal Service section for weight per copy on the Periodicals postage statement.	9	12
The unit did not verify that publisher and customer sections of the Periodicals postage statement were completed.	7	11
The unit did not attach PS Form 3607 to the permit/business mail postage statement after entering the data in PostalOne!	6	0
The unit did not maintain an operating profile for each DMU.	6	6
SPPS Agreements/Authorizations		
The unit did not follow sampling procedures or sample manifest mailings at the prescribed frequency.	10	1
The unit did not comply with SPPS agreements and value-added refund mailings.	7	7
The unit did not have SPPS authorizations or agreements on file or have current authorizations or agreements.	6	11
The unit did not always attach quality control standards to SPPS agreements or conduct quality control checks and reviews at required frequencies.	6	2
Revenue Protection		
The unit did not use or maintain a bypass mail log or have a process in place to identify bypassed mail.	16	11
The unit did not monitor for missing Periodicals postage statements (frequency breaks) or review mailing frequencies.	7	5

APPENDIX E: MANAGEMENT'S COMMENTS

SUSAN M. PLONKEY
VICE PRESIDENT, CUSTOMER SERVICE



March 4, 2008

JOHNSON JOHN
Acting Director, Audit Operations

SUBJECT: Response to Audit Report – Fiscal Year 2007 Financial Installation Audit
Business Mail Entry Units (Report Number FF-AR-08-DRAFT)

Thank you for the opportunity to respond to the findings in your draft Fiscal Year (FY) 2007 Financial Installation Audit of Business Mail Entry Units (BMEUs) (Report Number AF-FF-08-DRAFT). Management agrees with the findings in this report and accepts your recommendations. Management's responses to each recommendation are included below.

Recommendation 1:

Develop and implement an action plan to measurably reduce the current deficiency and its likelihood of continuing.

Response

Management agrees with this recommendation.

Business Mail Acceptance (BMA) recognizes the need to reduce internal control deficiencies. To address the issues cited in Report Number FF-AR-08-DRAFT, Marketing and Finance have established a cross-functional team to identify and implement process changes to strengthen internal controls and to develop and distribute related training and communications materials.

To accomplish these goals, the cross-functional team has initiated the following actions:

- Conducted Financial Control and Support (FCS) field reviews to identify root causes leading to noncompliance with internal controls related to processing postage statements correctly and timely. Review results will be finalized in March 2008 and used to identify process improvements.
- Started revising Handbook DM-109, *Business Mail Acceptance*, to clarify acceptance procedures. The revised handbook is expected to be available by the end of FY08.
- Started development of additional management reports to assist managers in monitoring compliance with established procedures. The reports will be available to field managers through the BMA web site by the end of FY08.
- Developed training for BME employees, specifically addressing the issues raised by the OIG in the above referenced report. Training is currently being provided at area Train-the-Trainer (TTT) sessions, which are scheduled to be completed by April 2008. All field training will be completed by Quarter 4 of this fiscal year.

Business Mail Acceptance and Finance are responsible for these actions.

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Recommendation 2:

Provide proper management oversight and instructions to schedule periodic verifications when Periodicals mailings are received during non-business hours.

Response

Management agrees with this recommendation.

Marketing plans to evaluate Periodicals acceptance requirements to determine whether policies should be changed to accommodate customers while ensuring proper collection of revenues. Until the evaluation is completed, Marketing is reinforcing through communications local management's responsibility to ensure scheduled verifications occur for Periodicals mailings deposited during non-business hours.

Business Mail Acceptance is responsible for these actions.

Recommendation 3:

Properly train all employees, including supervisors who accept business and Periodicals mail.

Response:

Management agrees with the recommendation.

As mentioned in response 1, Marketing is providing TTT training for BME employees at all Areas, which will be completed by April 2008. The training addresses financial compliance, verification processes, and procedures. Each Area is responsible for disseminating training throughout all acceptance sites within their Area by Quarter 4 of this fiscal year.

Business Mail Acceptance is responsible for this action.

Recommendation 4:

Review existing policies and procedures for consistency.

Response

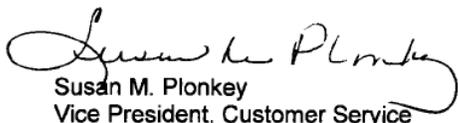
Management agrees with the recommendation.

As described in our response to Recommendation 1, Marketing and Finance have developed a cross-functional team to review existing policies and procedures to identify and implement process changes to strengthen internal controls. As part of this effort, Handbook DM-109 is being updated to clarify acceptance procedures and to improve consistency.

Business Mail Acceptance is responsible for these actions.

Management agrees with the findings, recommendations, monetary and non-monetary impacts as outlined in the OIG FY2007 capping report for Business Mail Entry Units. This report and management's response do not contain information that may be exempt from disclosure under the FOIA.

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
Vice President, Customer Service

cc: H. Glen Walker
Lynn Malcolm
George Wright
Stephen Kearney
Katherine Banks