



December 22, 2008

PRITHA N. MEHRA
VICE PRESIDENT, BUSINESS MAIL ENTRY & PAYMENT TECHNOLOGIES

KATHLEEN AINSWORTH
VICE PRESIDENT, RETAIL OPERATIONS

SUBJECT: Audit Report – Fiscal Year 2008 Financial Installation Audit –
Business Mail Entry Units (Report Number FF-AR-09-052)

This report summarizes the results of financial audits we conducted at 96 statistically selected business mail entry units (BMEU) for fiscal year (FY) 2008 (Project Number 08BD002FF000). 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. See [Appendix A](#) for additional information about this audit.

Conclusion

Based on the items we reviewed at 96 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 four locations where major controls were not effective.¹ 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 continues to exist related to the acceptance of mail.² We reported similar mail acceptance and

¹ Overall, internal controls were not in place and effective at the [REDACTED], sites. Internal controls were in place except in the area of mail acceptance at the xxxxxx [REDACTED], sites.

² This is the second consecutive fiscal year the significant deficiency has been reported. Ernst & Young, LLP, the independent public accounting firm contracted to express an opinion on the Postal Service's financial statements, reported this as a significant deficiency in its *Reports 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* (November 14, 2007, and again November 14, 2008). 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.

other compliance issues in prior fiscal years' reports. Management concurred with the recommendations in our FY 2007 report³ and, in response, developed a nationwide corrective action plan with measurable goals to correct conditions related to mail acceptance and verification procedures. Although this significant deficiency continued in FY 2008, the Postal Service has made progress to remediate the deficiency and to comply with future Sarbanes-Oxley (SOX) Act of 2002 requirements.⁴ Management anticipates a reduction in the occurrence of these issues once the corrective actions are in place and fully implemented.

[Appendix B](#) lists the sites we reviewed,⁵ and [Appendix C](#) lists each issue we reported during FY 2008 and the number of units where we reported the same issue in FY 2006 and FY 2007. [Appendix D](#) presents statistical projections for the number of units with reported internal control deficiencies.⁶

Additionally, we made recommendations to district management addressing the control and compliance issues at each installation and provided quarterly reports to management on the status of our results. District management's comments were responsive to our findings, recommendations, and \$1.6 million in monetary and \$1.5 million in non-monetary impacts.⁷ The actions taken or planned should correct the issues identified at these individual installations. This year we also made four referrals to the U.S. Postal Service Office of Inspector General (OIG) Office of Investigations for situations that warranted further examination.

Mail Acceptance and Verification Procedures

Our audits of 96 BMEU sites continued to show that Postal Service personnel did not always follow mail acceptance and verification procedures, complete and enter postage statements, test and calibrate scales, conduct Mail Evaluation Readability Lookup INstrument (MERLIN) verifications, close inactive accounts, and verify that funds were sufficient for mailings. Specifically:

- During our mail observations at both BMEUs and Detached Mail Units (DMU),⁸ we noted mailing personnel did not always follow the required acceptance, verification, and clearance procedures for mailings.⁹ Although we observed various noncompliance issues related to this process, the most significant issue related to

³ *Fiscal Year 2007 Financial Installation Audit – Business Mail Entry Units* (Report Number FF-AR-08-131, dated March 19, 2008).

⁴ Public Law 107-204, 11 Stat 745.

⁵ Appendix B lists the 96 statistically and two judgmentally selected sites audited in FY 2008.

⁶ Appendix D does not include the findings identified at the two judgmentally selected sites. Of the 96 statistically selected sites, 86 had internal control issues, six did not have any conditions that materially affected the reasonableness or fairness of the reported financial data, two had overall ineffective controls, and two had ineffective controls over mail acceptance.

⁷ These figures are for the 96 statistically selected sites and do not include the two judgmentally selected sites.

⁸ A DMU is an area in a mailer's facility where postal employees perform mail verification, acceptance, dispatch, and other postal functions.

⁹ Handbook DM-109, *Business Mail Acceptance*, Chapters 3 and 6, September 2006.

Periodicals not being verified at BMEUs. For example, units often received Periodicals mailings during non-business hours and these mailings were allowed to enter the mailstream without verification. According to a Business Mail Entry & Payment Technologies Marketing Specialist, it is standard operating procedure for BMEUs to process and not verify Periodicals mail deposited during non-business hours. The specialist 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 throughout FY 2008 because criteria requires Periodicals to receive an initial verification and does not make an exception for publications delivered during non-business hours.

- Employees did not always properly complete or post statements to customer accounts in a timely manner.¹⁰
- Employees did not always properly test or calibrate scales used to weight verify the mail.¹¹
- Employees did not always use the random generator selection list or MERLIN worksheets for selecting trays of mail to verify. In addition, employees did not always perform MERLIN verifications at the proper frequencies.¹²
- Unit employees did not properly close or refund balances in all cases for inactive business mail or Periodicals¹³ advance deposit accounts.¹⁴ We identified more than \$1.5 million related to inactive accounts.
- Employees did not always monitor customer trust accounts with negative balances and sometimes accepted mailings from customers who did not have sufficient funds in their accounts.¹⁵

Postal Service's Corrective Actions

The Postal Service developed and implemented a detailed corrective action plan in response to a recommendation made in our FY 2007 BMEU Capping Report and the related significant deficiency. In particular, Business Mail Entry & Payment Technologies 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:

¹⁰ Handbook DM-109, Chapter 3.

¹¹ Handbook DM-109, Sections 265.2 and 356.11.

¹² Handbook DM-109, Section 335.

¹³ These inactive Periodicals accounts were at additional entries. An additional entry is a post office other than the office of original entry where a publisher is authorized to mail a Periodicals publication.

¹⁴ Handbook F-101, *Field Accounting Procedures (FAP)*, Section 16-7, July 2008, and Domestic Mail Manual (DMM) 300, *Mailing Standards for the U.S. Postal Service*, Section 707.30.3.3, December 4, 2008.

¹⁵ Handbook DM-109, Section 334 (2b).

- Financial Control and Support (FC&S) conducted field reviews to identify root causes for noncompliance with internal controls for processing postage statements correctly and timely. The team also developed additional reports to assist managers in monitoring compliance with established procedures. These process improvements and reports have increased the percentage of postage statements entered timely and decreased the number of outstanding negative accounts and inactive accounts.
- Business Mail Acceptance (BMA), under Business Mail Entry & Payment Technologies, is evaluating Periodicals acceptance requirements by determining whether it should change policies to accommodate customers while ensuring proper collection of revenues. Until the evaluation is completed, Business Mail Entry & Payment Technologies is reinforcing requirements through communications that local management needs to ensure that scheduled verifications occur for Periodicals mailings deposited during non-business hours.
- BMA and FC&S trained business mail entry employees specifically on mail acceptance procedures and the issues raised in our FY 2007 report. Employees completed the training during the 4th quarter of FY 2008.
- BMA issued an updated Handbook DM-109, *Business Mail Acceptance*, in November 2008 to clarify acceptance procedures and improve consistency.
- BMA also established an intranet website used to communicate mail acceptance issues between Headquarters and field operations and improve performance related to the significant deficiency. The site also links to a website that posts OIG and SOX Management Controls & Integration audit and compliance issues.
- Finance and BMA conduct weekly meetings with Headquarters senior level management and field accounting, finance, and customer relations managers to review key performance metrics, understand root causes, share best practices, and take corrective action. They also developed key performance metric reports to monitor the performance of delayed postage statements, negative balances, and inactive accounts.

We will continue to assess the Postal Service's progress in achieving and fully implementing these corrective actions. As we are not making recommendations in this report, management determined there was no need to provide formal comments.

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.



John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

cc: H. Glen Walker
Thomas G. Day
William P. Galligan
Lynn Malcolm
Maura Robinson
Steven R. Phelps
Lori M. Wigley
Katherine S. Banks

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 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) located in New York, New York.

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 employees properly prepare business mailings 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 a web-based process. In addition, the Postal Service 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 2007 through September 2008 at 96 statistically selected and two judgmentally selected sites that represented approximately \$5.9 billion in revenue for FY 2007. We randomly selected and reviewed business mail and Periodicals postage statements generated for specific reporting periods during FY 2008.

We also reviewed authorizations for nonprofit mailers and Periodicals publications. We observed mail acceptance, verification, and clearance processes and reviewed 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 the safeguarding of assets as designed. We interviewed supervisors and employees and observed operations at the Postal Service sites.

We conducted this audit from October 2007 through December 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to limit audit risk to a low level that is, in our professional judgment, appropriate for supporting the overall audit opinion on the financial statements. Those standards also require us to consider the results of previous engagements and follow up on known significant findings and recommendations that directly relate to the objectives of the audit. An audit also includes a sufficient understanding of internal control to plan the audit and determine the nature, timing, and extent of audit procedures to be performed.

We supported the external auditors in obtaining reasonable assurance about whether the financial statements are free of material misstatement (whether caused by error or fraud). Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, an audit conducted in accordance with generally accepted government auditing standards may not detect a material misstatement. However, the external auditors and the OIG are responsible for ensuring that appropriate Postal Service officials are aware of any significant deficiencies that come to our attention. We discussed the results of our audit with management on December 3, 2008, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

We evaluated all findings from reports previously issued at FY 2008 audit sites during FYs 2003 through 2007. We reported the status of the recommendations in each of the applicable installation reports issued. Additionally, we issued four headquarters and nine area capping reports for FYs 2004 through 2007 that summarized our installation-level audits. Many of the findings identified in these reports still continue and are addressed in this audit report; however, the Postal Service has made progress to remediate the significant deficiency identified in FY 2007.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Audit Report – Fiscal Year 2007 Financial Installation Audit – Business Mail Entry Units</i>	FF-AR-08-131	3/19/08	N/A	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 locations 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 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.
<i>Audit Report – Fiscal Year 2006 Financial Installation Audit – Business Mail Entry Units</i>	FF-AR-07-090	2/15/07	N/A	Based on the items we reviewed at 100 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 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.
<i>Audit Report – Fiscal Year 2005 Financial Installation Audit – Business Mail Entry Units</i>	FF-AR-06-113	3/30/06	N/A	Based on the items we reviewed at 98 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 various internal control and compliance issues related to procedures for closing inactive advance deposit accounts; managing nonprofit and Periodicals mailers and publications; reconciling master trust balances; completing postage statements; accepting and verifying mail; and monitoring SPPS agreements, bypass mail, missing postage statements, and annual business mail fees.

<p><i>Audit Report – Fiscal Year 2005 Northeast Area Financial Installation Audits</i></p>	<p>FF-AR-06-141</p>	<p>4/26/06</p>	<p>N/A</p>	<p>In the Northeast Area, we audited 10 Post Offices (PO) and 15 BMEUs. We did not audit any Self-Service Postal Centers (SSPC) or Automated Postal Centers (APC) in this area. 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, except at one PO and one BMEU. However, in all but one audit, we noted various internal control and compliance issues.</p>
<p><i>Audit Report – Fiscal Year 2005 Eastern Area Financial Installation Audits</i></p>	<p>FF-AR-06-142</p>	<p>4/25/06</p>	<p>N/A</p>	<p>In the Eastern Area, we audited 12 POs and 15 BMEUs. We did not audit any SSPCs or APCs in this area. Based on the items we reviewed, financial transactions for these units were reasonably and fairly presented in the accounting records and, generally, the internal controls we examined were in place and effective. However, in all but two audits, we noted various internal control and compliance issues.</p>
<p><i>Audit Report – Fiscal Year 2005 New York Metro Area Financial Installation Audits</i></p>	<p>FF-AR-06-140</p>	<p>4/24/06</p>	<p>N/A</p>	<p>In the New York Metro Area, we audited 10 POs and six BMEUs. We did not audit any SSPCs or APCs in this area. Based on the items we reviewed, financial transactions for these audits were reasonably and fairly presented in the accounting records and, generally, the internal controls we examined were in place and effective. However, in all but three audits, we noted various internal control and compliance issues.</p>
<p><i>Audit Report – Fiscal Year 2005 Pacific Area Financial Installation Audits</i></p>	<p>FF-AR-06-119</p>	<p>3/30/06</p>	<p>N/A</p>	<p>In the Pacific Area, we audited 13 POs, 11 BMEUs, one SSPC, and three APCs. Based on the items we reviewed, financial transactions for these units were reasonably and fairly presented in the accounting records and, generally, the internal controls we examined were in place and effective, except at one PO and one SSPC. In addition, in all the audits, we noted various internal control and compliance.</p>

<p><i>Audit Report – Fiscal Year 2005 Great Lakes Area Financial Installation Audits</i></p>	<p>FF-AR-06-118</p>	<p>3/28/06</p>	<p>N/A</p>	<p>In the Great Lakes Area, we audited seven POs, 12 BMEUs, and one APC. We did not audit any SSPCs in this area. Based on the items we reviewed, financial transactions for these units were reasonably and fairly presented in the accounting records and, generally, the internal controls we examined were in place and effective, except at two POs and one APC. However, in all but two audits, we noted various internal control and compliance issues.</p>
<p><i>Audit Report – Fiscal Year 2005 Western Area Financial Installation Audits</i></p>	<p>FF-AR-06-112</p>	<p>3/23/06</p>	<p>N/A</p>	<p>In the Western Area, we audited 11 POs, 17 BMEUs, three SSPCs, and one APC. Based on the items we reviewed, financial transactions for these units were reasonably and fairly presented in the accounting records and, generally, the internal controls we examined were in place and effective. However, in all but five audits, we noted various internal control and compliance issues.</p>
<p><i>Audit Report – Fiscal Year 2005 Capital Metro Area Financial Installation Audits</i></p>	<p>FF-AR-06-105</p>	<p>3/20/06</p>	<p>N/A</p>	<p>In the Capital Metro Area, we audited six POs, three BMEUs, one SSPC, and two APCs. Based on the items we reviewed, financial transactions for these units were reasonably and fairly presented in the accounting records and, generally, the internal controls we examined were in place and effective. However, in all but one audit, we noted various internal control and compliance issues.</p>
<p><i>Audit Report – Fiscal Year 2005 Southeast Area Financial Installation Audits</i></p>	<p>FF-AR-06-099</p>	<p>3/13/06</p>	<p>N/A</p>	<p>In the Southeast Area, we audited 13 POs, 12 BMEUs, and two APCs. We did not audit any SSPCs in this area. Based on the items we reviewed, financial transactions for these units were reasonably and fairly presented in the accounting records and, generally, the internal controls we examined were in place and effective. However, in all but two audits, we noted various internal control and compliance issues.</p>

<p><i>Audit Report – Fiscal Year 2005 Southwest Area Financial Installation Audits</i></p>	<p>FF-AR-06-087</p>	<p>3/1/06</p>	<p>N/A</p>	<p>In the Southwest Area, we audited 10 POs, seven BMEUs, and one APC. We did not audit any SSPCs in this area. Based on the items we reviewed, financial transactions for these units were reasonably and fairly presented in the accounting records and, generally, the internal controls we examined were in place and effective, except at the one APC. In addition, in all the PO and BMEU audits, we noted various internal control and compliance issues.</p>
<p><i>Audit Report – Fiscal Year 2004 Financial Installation Audit – Business Mail Entry Units</i></p>	<p>FF-AR-05-065</p>	<p>2/24/05</p>	<p>N/A</p>	<p>Based on the items we reviewed, financial transactions were reasonably and fairly presented in the accounting records and, generally, the internal controls we examined were in place and effective at 97 of the 98 BMEUs. However, at one unit, critical internal control and compliance issues existed because the unit did not follow procedures for Periodicals and business mail acceptance and verification.</p>

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

	Unit Name	Location	Unit Type	FY 2007 Revenue	OIG Report Number	Monetary Impact ¹⁶	Non-Monetary Impact ¹⁶
1			BMEU	\$1,534,364		\$3,565	\$0
2			Associate Office (AO) ¹⁷	\$1,121,841		\$0	\$1,400
3			BMEU	\$7,401,077		\$9,958	\$0
4			AO	\$67,522		\$0	\$10,694
5			AO	\$69,936		\$0	\$0
6			AO	\$357,803		\$0	\$50,139
7			AO	\$1,599,921		\$0	\$0
8			BMEU	\$109,453,842		\$5,850	\$0
9			BMEU	\$171,861,685		\$44,838	\$0
10			BMEU	\$328,908		\$0	\$0
11			AO	\$1,148,521		\$0	\$0
12			AO	\$621,511		\$6,369	\$0
13			BMEU	\$53,734,134		\$180,840	\$0
14			AO	\$69,170		\$0	\$2,743
15			BMEU	\$160,382,752		\$112,709	\$10,503
16			BMEU	\$23,506,999		\$2,015	\$0
17			AO	\$156,653		\$0	\$0
18			BMEU	\$8,453,228		\$0	\$0
19			BMEU	\$8,494,030		\$5,805	\$3,922
20			AO	\$89,735		\$0	\$1,765
21			BMEU	\$15,447,404		\$0	\$0
22			BMEU	\$961,747,972		\$127,977	\$0
23			AO	\$31,083,864		\$0	\$6,905
24			AO	\$65,085		\$0	\$0
25			AO	\$1,002,639		\$0	\$0
26			BMEU	\$2,007,368		\$0	\$0
27			BMEU	\$116,515,930		\$20,823	\$463,962
28			BMEU	\$1,239,463		\$59,577	\$0
29			BMEU	\$51,391,814		\$213,096	\$0
30			AO	\$9,942,843		\$1,690	\$5,082
31			BMEU	\$109,433		\$0	\$2,936

¹⁶ We included these amounts in the individual reports previously issued.

¹⁷ 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 to and from the SCF.

¹⁸ 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.

	Unit Name	Location	Unit Type	FY 2007 Revenue	OIG Report Number	Monetary Impact ¹⁶	Non-Monetary Impact ¹⁶
32			BMEU	\$18,435,865		\$19,495	\$0
33			DMU	\$578,659,136		\$0	\$61,286
34			AO	\$28,036,616		\$0	\$0
35			AO	\$326,412		\$0	\$8,542
36			BMEU	\$14,371,676		\$3,844	\$4,728
37	¹⁸		AO	\$1,084,912		\$0	\$0
38			BMEU	\$9,528,451		\$1,107	\$28,378
39			BMEU	\$2,535,292		\$6,213	\$38,530
40			AO	\$697,213		\$3,324	\$0
41			BMEU	\$198,568,656		\$0	\$0
42			AO	\$462,188		\$0	\$14,336
43			AO	\$6,644,412		\$8,338	\$0
44			BMEU	\$539,127,574		\$40,474	\$0
45			AO	\$121,514,117		\$0	\$8,426
46			BMEU	\$3,023,963		\$0	\$54,422
47			BMEU	\$307,170,294		\$0	\$0
48	¹⁹		AO	\$309,540		\$0	\$21,939
49			BMEU	\$194,080,882		\$1,012	\$0
50			AO	\$356,771		\$0	\$1,646
51			BMEU	\$8,441,998		\$9,524	\$101,732
52	¹⁸		BMEU	\$536,889		\$0	\$0
53			AO	\$6,570,894		\$0	\$13,226
54			AO	\$93,638		\$0	\$0
55			BMEU	\$106,273,523		\$33,848	\$0
56			BMEU	\$1,771,779		\$28,398	\$0
57	²⁰		BMEU	\$275,373		\$20,347	\$10,680
58			AO	\$47,166,677		\$2,998	\$0
59			AO	\$138,200		\$2,761	\$2,810
60			AO	\$96,844		\$0	\$0
61	¹⁹		AO	\$319,236		\$13,417	\$39,884
62			AO	\$926,486		\$0	\$0
63			AO	\$156,772		\$0	\$0
64			BMEU	\$460,971,694		\$0	\$0
65			BMEU	\$150,097		\$0	\$1,101
66			BMEU	\$132,358,964		\$113,014	\$0

¹⁹ Based on the items we reviewed, financial transactions were reasonably and fairly presented in the accounting records; however, overall the internal controls we examined were not place or effective.

²⁰ 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 — mail acceptance, verification, and clearance procedures.

	Unit Name	Location	Unit Type	FY 2007 Revenue	OIG Report Number	Monetary Impact ¹⁶	Non-Monetary Impact ¹⁶
67			BMEU	\$8,887,902		\$0	\$0
68			BMEU	\$1,317,342		\$0	\$0
69			AO	\$661,863		\$0	\$0
70	¹⁸		AO	\$828,796		\$0	\$0
71			BMEU	\$8,658,657		\$23,034	\$0
72	¹⁸		AO	\$707,246		\$0	\$0
73			BMEU	\$16,128,300		\$0	\$38,952
74			BMEU	\$13,327,698		\$1,968	\$167,110
75			AO	\$37,737,385		\$0	\$25,024
76			BMEU	\$68,490,047		\$27,345	\$0
77			BMEU	\$13,037,107		\$0	\$13,492
78			BMEU	\$215,433,687		\$29,079	\$6,022
79			BMEU	\$12,302,455		\$32,867	\$112,289
80			DMU	\$157,090,621		\$25,180	\$0
81			BMEU	\$154,327,882		\$0	\$31,049
82			BMEU	\$194,053,270		\$19,504	\$18,970
83			BMEU	\$51,074,670		\$223,790	\$0
84			AO	\$504,918		\$0	\$11,743
85			AO	\$17,784,569		\$0	\$48,052
86			AO	\$5,921,040		\$7,400	\$1,384
87			xxxx	\$15,894,202		\$46,507	\$0
88			AO	\$33,878,344		\$1,674	\$69,516
89			AO	\$29,230,628		\$6,513	\$0
90			AO	\$494,652		\$10,337	\$0
91			BMEU	\$644,761		\$0	\$0
92			BMEU	\$908,800		\$0	\$0
93			BMEU	\$1,031,140		\$0	\$0
94			AO	\$337,528		\$0	\$3,539
95			AO	\$4,301,736		\$0	\$13,614
96	²⁰		AO	\$91,246		\$0	\$7,901
	Subtotal			\$5,597,278,973		\$1,558,424	\$1,540,374
97	²¹	xxxxxxx, xx	BMEU	\$336,427,317		\$1,754,300	\$17,619,400
98	²¹	Norwich, CT	AO	\$1,714,548		\$85,804	\$2,256
	Subtotal			\$338,141,865		\$1,840,104	\$17,621,656
	Total			\$5,935,420,838		\$3,398,528	\$19,162,030

²¹ This site was judgmentally selected.

APPENDIX C: CONTROL DEFICIENCIES AND REPORTED FREQUENCIES

Description of Internal Control Deficiency	FY 2008 Number of Sites with Finding Sample Size = 96	FY 2007 Number of Sites with Finding Sample Size = 101	FY 2006 Number of Sites with Finding Sample Size = 100
Customer Accounts and Eligibility Requirements			
The unit did not properly close or refund balances for inactive business mail or Periodicals (at an additional entry) advance deposit accounts.	48	53	52
The unit did not verify Periodicals advertising percentages or publishing frequencies.	38	36	25
The unit did not conduct postage payment and zone accuracy reviews or properly document them.	26	33	24
The unit accepted mail at nonprofit rates without authorization or did not verify that its database matched the PCSC's Nonprofit Authorization Official Classification Records and Authorizations System database/report at least once a year.	21	9	8
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.	12	17	9
The unit did not conduct Periodicals eligibility reviews.	9	7	5
Mail Acceptance, Verification, and Clearance Procedures			
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.)	Untimely = 38 Not Posted = 6	23	27
During our observations, the unit did not conduct one- or two-pass verifications at the BMEU.	36	38	33
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 those not posted and those not posted in a timely manner.)	Untimely = 27 Not Posted = 9	13	17
The unit did not verify that the mailer's completed sections of the permit/business mail postage statement were completed.	25	21	34
The unit did not complete the Postal Service sections of the permit or business mail postage statement.	25	21	34

Description of Internal Control Deficiency	FY 2008 Number of Sites with Finding Sample Size = 96	FY 2007 Number of Sites with Finding Sample Size = 101	FY 2006 Number of Sites with Finding Sample Size = 100
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.	BMEU = 23 DMU = 8	21	9
The unit did not round stamp and sign the permit/business mail postage statement.	20	15	13
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.	17	10	9
The unit did not verify that publisher/customer sections of the Periodicals postage statement were completed.	14	7	11
The unit did not complete the Postal Service section for weight per copy on the Periodicals postage statement.	13	9	12
The unit did not round stamp and sign the Periodicals postage statement.	12	11	4
The unit did not monitor customer trust accounts and accepted mailings from accounts that did not have sufficient funds to cover the mailings.	10	10	7
The unit did not maintain an operating profile for each DMU.	9	6	6
The unit did not maintain a current BMEU operating profile.	8	5	5
The unit did not properly accept checks (i.e., refer to a bad check list or ensure proper annotations were listed on the check) prior to accepting.	8	N/A	N/A
During our observations, the unit did not conduct one- or two-pass verifications at DMUs.	7	5	4
Mailers did not provide DMUs an enclosed, secured work area or a telephone.	6	5	1
SPPS Agreements/Authorizations			
The unit did not follow sampling procedures or sample manifest mailings at the prescribed frequency.	11	10	1
The unit did not have SPPS authorizations or agreements on file or have current authorizations or agreements.	6	6	11
The unit did not comply with SPPS agreements and value-added refund mailings.	6	7	7
Revenue Protection			
The unit did not use or maintain a bypass mail log or have a process in place to identify bypassed mail.	13	16	11

Description of Internal Control Deficiency	FY 2008 Number of Sites with Finding Sample Size = 96	FY 2007 Number of Sites with Finding Sample Size = 101	FY 2006 Number of Sites with Finding Sample Size = 100
The unit did not monitor for missing Periodicals postage statements (frequency breaks) or review mailing frequencies.	9	7	5

APPENDIX D: 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 2,698 units with revenues above \$50,000. We sampled 96 units as a stratified attributes design further allocated to each of four revenue-based strata.²²

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.

Finding	Statistical Projections					
	Lower Limit ²³		Point Estimate ²⁴		Upper Limit ²⁵	
	Units		Units		Units	
Customer Accounts and Eligibility Requirements						
The unit did not properly close or refund balances for inactive business mail or Periodicals (at an additional entry) advance deposit accounts.	665	25%	966	36%	1,267	47%
The unit did not verify Periodicals advertising percentages or publishing frequencies.	767	28%	1,096	41%	1,424	53%
The unit did not conduct postage payment and zone accuracy reviews or properly document them.	356	13%	625	23%	893	33%
The unit accepted mail at nonprofit rates without authorization or did not verify that its database matched the PCSC's Nonprofit Authorization Official Classification Records and Authorizations System database/report at least once a year.	350	13%	627	23%	905	34%
The unit did not verify that mailers filed PS Form 3526 correctly or in a timely manner.	134	5%	365	14%	596	22%

²² So that we could statistically project the number of units with internal control deficiencies, we did not include the two judgmentally selected locations. 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.

²³ The lower limit is the least 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.

²⁴ The point estimate is the estimated total number of deviations (units) in which the condition may exist.

²⁵ The upper limit is the greatest estimated number of deviations (units) in which the condition may exist.

Finding	Statistical Projections					
	Lower Limit ²³		Point Estimate ²⁴		Upper Limit ²⁵	
The unit did not conduct Periodicals eligibility reviews.	50	2%	225	8%	401	15%
Mail Acceptance, Verification, and Clearance Procedures						
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.	843	31%	1,151	43%	1,458	54%
During our observations, the unit did not conduct one- or two-pass mail verifications according to Postal Service instructions at the BMEU.	775	29%	1,104	41%	1,433	53%
The unit did not post data from the Periodicals postage statement to the mailer's account (PostalOne!) within a reasonable amount of time.	664	25%	966	36%	1,269	47%
The unit did not verify that the mailer's sections of permit/business mail postage statement were completed.	513	19%	822	31%	1,131	42%
The unit did not complete the Postal Service sections of the permit/business mail postage statement.	590	22%	905	34%	1,221	45%
The unit did not have or provide a scale for weight verification, properly test the scale, or calibrate the scale on an annual basis at the BMEU.	502	19%	812	30%	1,123	42%
The unit did not round stamp and sign the permit/business mail postage statement.	598	22%	913	34%	1,227	46%
The unit did not utilize the random selection list and MERLIN worksheets for selecting trays of mail to be verified on MERLIN or always perform the MERLIN verifications at the proper frequencies (at BMEU or DMU).	85	3%	150	6%	215	8%
The unit did not verify that the publisher/customer's sections of the Periodicals postage statement were completed.	194	7%	449	17%	704	26%
The unit did not complete the U.S. Postal Service section for weight per copy on the Periodicals postage statement.	294	11%	577	21%	861	32%
The unit did not round stamp and sign the Periodicals postage statement.	182	7%	439	16%	695	26%

Finding	Statistical Projections					
	Lower Limit ²³		Point Estimate ²⁴		Upper Limit ²⁵	
The unit did not verify that customer trust accounts had sufficient funds before accepting mailings or accepted mailings from accounts that did not have sufficient funds to cover the postage.	39	1%	212	8%	385	14%
The unit did not post data from the Periodicals postage statement to the mailer's account (PostalOne!). NOTE: These typically are not part of the statement sample.	167	6%	424	16%	680	25%
The unit did not maintain an operating profile for each DMU.	29	1%	82	3%	136	5%
The unit did not properly accept checks (i.e., refer to the bad check list or ensure proper annotations were listed on the check) prior to accepting.	77	3%	280	10%	484	18%
The unit did not maintain a current BMEU operating profile.	8	0.3%	128	5%	248	9%
The unit did not have or provide a scale for weight verification, properly test the scale, or calibrate the scale on an annual basis at the DMU.	0	0%	123	5%	255	9%
During our observations, the unit did not conduct one- or two-pass mail verifications according to Postal Service instructions at the DMU.	3	0.1%	86	3%	169	6%
The unit did not post data from the permit/business mail postage statement to the mailer's account (PostalOne!). NOTE: These typically are not part of the statement sample.	84	3%	316	12%	548	20%
The mailer did not provide the DMU an enclosed, secured work area or a telephone.	0	0%	81	3%	164	6%
SPPS Agreements/Authorizations						
The unit did not follow sampling procedures or sample manifest mailings at the prescribed frequency.	101	4%	300	11%	500	19%
The unit did not have SPPS mailing authorizations or agreements on file or have current authorizations or agreements.	7	0.3%	39	1.5%	72	3%
The unit did not comply with SPPS agreements and value-added refund mailings.	0	0%	81	3%	164	6%

Finding	Statistical Projections					
	Lower Limit ²³		Point Estimate ²⁴		Upper Limit ²⁵	
Revenue Protection						
The unit did not use or maintain a bypass mail log or have a process in place to identify bypassed mail.	25	0.9%	115	4%	204	8%
The unit did not monitor for missing Periodicals postage statements (frequency breaks) or review mailing frequencies.	86	3%	304	11%	521	19%