



September 28, 2009

ANTHONY C. WILLIAMS
MANAGER, NORTHLAND DISTRICT

SUBJECT: Audit Report – Northland District – Business Mail Entry
Financial Risk (Report Number FF-AR-09-224)

This report presents the results of our audit of the Northland District business mail entry (BME) financial activities (Project Number 09BD018FF000). We conducted this self-initiated audit at the [REDACTED] Business Mail Entry Units (BMEUs) to evaluate financial risk as identified by a U.S. Postal Service Office of Inspector General (OIG) Performance and Results Information Systems (PARIS) model. See [Appendix A](#) for additional information about this audit.

[Conclusion](#)

Based on the transactions we reviewed, internal controls over timely postage statement entry, customer trust accounts, and transaction overrides were generally in place and effective. However, we identified a few areas related to late postage statements, inactive customer deposit accounts, and Periodicals verifications that could be improved. There were a variety of causes for these issues, but, overall, the district is monitoring and addressing the issues. In addition, while the two BMEUs we audited had a large number of transaction overrides, these were primarily due to system issues. See [Appendix B](#) for our detailed analysis of this topic.

We identified monetary impact totaling \$3,664 for recoverable revenue loss¹ from not closing inactive customer accounts, and \$146,096 in non-monetary impact for revenue at risk² for late postage statements and unverified Periodicals mailings. See [Appendix C](#) for further information on the monetary and non-monetary impacts.

[Timely Postage Statement Entry](#)

Of almost 14,000 postage statements processed by the [REDACTED] BMEUs during April 2009, we identified 47 with postage totaling \$63,648 that employees entered from 1 to 40 days late. Unit employees cited various causes for late entries, including network connectivity problems with the laptops at detached mail

¹ Revenue that can be collected for goods delivered or services rendered.

² Revenue that the Postal Service is at risk of losing (for example, when a mailer seeks alternative solutions for services currently provided by the Postal Service).

units (DMU) and mailers dropping off time-sensitive Periodicals after normal business hours. For some, they could not provide an explanation. The Postal Service has an increased risk that its mailings will not meet standards, and it will lose revenue when controls are not effective or employees do not follow them. The district BME management monitors late postage statements weekly and follows up with the units to determine the causes. We believe this monitoring was effective in minimizing the number of instances of late postage statements, and, as such, we are not making a recommendation. See [Appendix B](#) for our detailed analysis of this topic.

Customer Trust Accounts

Of almost [REDACTED] customer accounts at the [REDACTED] BMEUs, we identified 49 inactive customer accounts (totaling \$23,430) that employees should have closed. Both units were monitoring and closing inactive accounts, which we believe helped to minimize the number of inactive accounts based on the volume of mail processed at these units. The units attributed the causes for the inactive customer accounts to a recent change in responsibility for monitoring the accounts at one unit and a technician at the other unit not realizing that some accounts needed to be tracked manually. When the Postal Service does not close inactive accounts or refund balances to customers or transfer those balances to miscellaneous non-postal revenue, as prescribed, there is an increased risk of funds being withdrawn and used for unauthorized purposes. Both units took corrective action on all 49 inactive accounts by sending non-use letters to customers and closing these accounts. As such, we are not making a recommendation. We are claiming \$3,664 transferred to non-postal revenue as monetary impact. See [Appendix B](#) for our detailed analysis of this topic.

Periodicals Mailings

District BME management allowed two time-sensitive Periodicals publishers at the [REDACTED] BMEU and one at the [REDACTED] BMEU to send mail without the Postal Service conducting random monthly in-depth verifications.³ The district BME Manager was aware of these issues and stated they occurred due to scheduling issues with the mailers. Specifically, the district BME Manager stated that two of the Periodicals are monthly publications and it is difficult to verify them because the mailer does not have a set schedule for dropping them off at the BMEU. The third publisher drops mail at a nearby general mail facility, which makes verification more difficult. The district BME Manager stated he is working with both mailers to make arrangements so Postal Service employees can conduct the random monthly in-depth verifications. The Postal Service has an increased risk that mailings will not meet standards and revenue will be lost when controls are not effective or followed.

³ Handbook DM-109, *Business Mail Acceptance*, Section 5-8.4 January 2009.

We recommend the Manager, Northland District, direct Business Mail Entry management to:

1. Provide for random, monthly, and in-depth verifications of time-sensitive Periodicals.

Transaction Overrides⁴

While the [REDACTED] BMEUs had a significant number of transaction overrides, two of the overrides, piece weight and mail fee, were primarily caused by system issues not in the unit or district's control. We will address these issues separately in our fiscal year (FY) 2009 Financial Installation Audit – BMEUs report,⁵ which summarizes Postal Service-wide issues relating to the BMEUs. Another type of override for negative balances occurred primarily because of scheduling issues regarding the input of checks into the Point-of-Service (POS) system. We determined that in all but a few of the transactions we reviewed, BMEU personnel cleared the negative balances within 2 to 3 days. As such, we are not making a recommendation. See [Appendix B](#) for our detailed analysis of this topic.

Management's Comments

Management agreed with our findings and recommendation. Management stated that a comprehensive plan for performing random monthly in-depth verifications has been developed and will be in place throughout the Northland District effective November 1, 2009. See [Appendix D](#) for management's comments in their entirety.

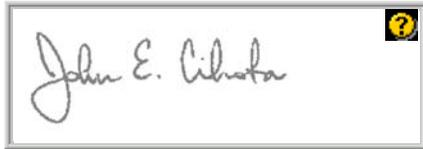
Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation in the report. Management's corrective actions should resolve the issue identified in the report.

⁴ An override is required any time a business rule or criteria in PostalOne! is not followed. The Override Report is available so that management can monitor the overrides.

⁵ Project Number 09BD002FF000.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Linda J. Libician-Welch, Director, Field Financial – West, or me at (703) 248-2100.



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Attachments

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

A BMEU is a Postal Service unit established for authorized business mailers to present business mailings. The Postal Service requires all mailings to be properly prepared by the mailer, taken to an approved BMEU, and paid for before entering the mailstream.

The PostalOne! system is a suite of services that offers web-based initiatives for business mailers and business mail acceptance (BMA) employees. A postage statement must accompany each mailing. BMEU acceptance employees should enter postage statement information into PostalOne! by close of business on the day the mailing was accepted.

PostalOne! allows acceptance employees to override various data entry selections when entering postage statements and generates a report detailing information on the overrides. BMEU supervisors should ensure that acceptance employees are following correct procedures for overrides.

The Postal Service also uses PostalOne! to record and track customer trust fund account information for authorized mailers. Trust funds are comprised of advance deposits for permit imprint, Periodicals, business reply, postage due, and Express Mail® accounts. The Postal Service maintains separate accounts for each service by customer.

An OIG developed BMEU PARIS model⁶ indicated that as of the end of April 2009, the Northland District was ranked the highest risk district in the nation. The model uses PostalOne! data to assign risk for 15 factors based on compliance, and ranks the Postal Service's 80 districts. The 15 risk factors are comprised of nine override, four late postage statement, and two inactive account performance indicators. The following table presents the ranking for the risk factors included in our audit scope as of April 30, 2009, and updated as of the end of June 2009.

Risk Factor	OIG BMEU PARIS Model Ranking ⁷	
	April 30, 2009	June 30, 2009
Late postage statements	22	12
Transaction overrides	2	2
Inactive trust accounts	7	15
Overall	1	1

⁶ The OIG developed the BMEU PARIS model using financial data from PostalOne!.

⁷ The model ranks districts from one to 80.

As of the end of April 2009, the model showed the district with 406 late postage statements with balances totaling \$450,199; 2,724 overrides on transactions totaling \$12,132,334; and inactive customer accounts with balances totaling \$656,857.

Several factors contributed to the model's ranking of the district. The district has several very large mailers who regularly have high-dollar value mailings, many of which are for time-sensitive Periodicals that mailers drop off after normal business hours, causing late postage statement entry. The model bases the risk ranking for late postage statement entry on the value of the mailings. The district also has a significant amount of large balances for Additional Postage Accounts (ADDPOS),⁸ most of which we determined were active, but which contributed to the district's high-risk ranking. The model includes these ADDPOS account balances in ranking the district's risk for inactive accounts. And finally, the model bases the risk for transaction overrides on the dollar value of the mailings that are overridden. We determined many of the overrides resulted from system issues beyond the scope of the district's control. Many of these issues contributed to the district's high ranking. See [Appendix B](#) for our detailed analysis of this topic.

The Northland District's 85 BMEUs reported \$1.5 billion in revenue for FY 2008.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine, at selected units in the Northland District, whether internal controls over timely postage statement entry, customer accounts, and transaction overrides were in place and effective.

To accomplish our objective, we randomly selected and reviewed transactions generated for the April 2009 reporting period related to postage statement entry, inactive customer accounts and transaction overrides at the [REDACTED] BMEUs. These units accounted for \$454 million in revenue, 30 percent of the district's BMEU revenue in FY 2008. As of April 2009, the OIG PARIS model showed these two BMEUs had 112 late postage statements with postage of \$177,971.⁹ The model showed the two units had \$755,819 in override transactions, the largest amount in the district. The model also showed the two units had 906 inactive customer accounts with balances totaling \$385,432.

Based on the interviews with the BMEU staff during the audit, we expanded our scope to review verifications for time-sensitive Periodicals mailings.

We traced recorded financial transactions to and from supporting documentation and assessed the reliability of computerized data by verifying the computer records to

⁸ ADDPOS accounts are created in PostalOne! to collect additional postage and maintain the activity to pay additional postage.

⁹ In addition, we reviewed a BMA report and identified 32 late postage statements, totaling \$51,306, for Centralized Automated Payment System accounts.

source documents. We used Postal Service instructions, manuals, policies, and procedures as criteria to evaluate internal controls and data reliability. We interviewed supervisors and employees and observed operations at these judgmentally selected units. We interviewed the district BME Manager to determine what procedures the district had in place to monitor inactive accounts, transaction overrides, and late postage statements.

We conducted this performance audit from June through September 2009 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on August 24, 2009, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

The OIG issued the following financial audit reports for BMEUs in the Northland District within the past 3 years. Management agreed with our findings and recommendations in each report.

Report Title	Report Number	Final Report Date	Monetary Impact	Non-Monetary Impact	Report Results
FY 2009 Financial Installation Audit – [REDACTED] BMEU	FF-AR-09-190	6/24/09	\$3,350	-	We reported various issues, including those related to five inactive customer accounts with balances totaling \$3,350, and presort acceptance overrides.
FY 2009 Financial Installation Audit – [REDACTED] BMEU	FF-AR-09-183	6/18/09	-	-	We reported various issues, including presort overrides for which technicians did not perform Mailing Evaluation Readability Look up INSTRUMENT verifications when prompted by PostalOne!
FY 2009 Financial Installation Audit – [REDACTED] BMEU	FF-AR-09-169	5/19/09	-	-	We reported various issues, including completion of postage statements such as verifying time and date of arrival, publication number, and owner or agent's printed name.

Report Title	Report Number	Final Report Date	Monetary Impact	Non-Monetary Impact	Report Results
<i>FY 2009 Financial Installation Audit – [REDACTED] BMEU</i>	FF-AR-09-162	5/8/09	-	-	We reported various issues including an issue with Permit verifications at one DMU.
<i>FY 2008 Financial Installation Audit – [REDACTED] BMEU</i>	FF-AR-08-199	6/5/08	\$6,213	\$38,530	We reported various issues, including identification of 21 inactive customer accounts, with balances totaling \$6,213, and 57 late postage statements, with postage of \$38,530.
<i>FY 2008 Financial Installation Audit – [REDACTED] BMEU</i>	FF-AR-08-161	4/21/08	\$1,968	\$167,110	We reported various issues, including identification of 53 late postage statements with postage of \$167,110.
<i>FY 2008 Financial Installation Audit – [REDACTED] BMEU</i>	FF-AR-08-066	1/8/08	-	\$22,437	We reported various issues, including six inactive customer accounts, with balances totaling \$548, and 22 late postage statements, with postage of \$22,437.
<i>FY 2008 Financial Installation Audit – [REDACTED] BMEU</i>	FF-AR-08-061	1/2/08	-	-	We identified one issue regarding advertising percentage reviews not conducted.
<i>FY 2007 Financial Installation Audit – [REDACTED] BMEU</i>	FF-AR-07-249	9/4/07	-	-	We reported various issues, including identification of six inactive customer accounts with balances totaling \$189.

APPENDIX B: DETAILED ANALYSIS

Timely Postage Statement Entry

Of 13,847 postage statements processed by the [REDACTED] BMEUs in April 2009, PostalOne! and BMA reports presented 124 as late. After analysis, we considered 47 postage statements with postage of \$63,648 as entered late. We did not consider the remaining 77 late, because these statements were generally for either time-sensitive Periodicals that publishers dropped off after business hours and for which BMEU employees entered at the earliest possible time, or they were late due to date entry and correction issues. The following table presents the causes for late postage statement entry and the postage amount associated with the statements.

Cause for Late Postage Statement Entry <i>(number of days late)</i>	April 2009 Postage Statements Shown As Late in PostalOne! and BMA Reports					
	[REDACTED] BMEU		[REDACTED] BMEU		Total ¹⁰	
	Number	Dollars	Number	Dollars	Number	Dollars
Statements we consider entered late						
Network/ connectivity <i>(1 to 3 days)</i>	20	\$33,666	0	\$0	20	\$33,666
Employees could not provide reason <i>(1 to 12 days)</i>	12	14,097	4	784	16	14,881
Periodicals dropped off after hours <i>(2 to 28 days)</i>	1	59	3	1,419	4	1,478
Bypass mail ¹¹ <i>(22 to 40 days late)</i>	3	2,895	0	0	3	2,895
Other <i>(1 day)</i>	3	4,665	1	6,063	4	10,728
Subtotal	39	\$55,382	8	\$8,266	47	\$63,648
Statements we do not consider entered late						
Periodicals dropped off after hours <i>(1 to 3 days)</i>	24	\$9,760	7	\$1,877	31	\$11,637
Data entry error/reversal <i>(not applicable)</i>	43	63,466	3	2,149	46	65,615
Subtotal	67	\$73,226	10	\$4,026	77	\$77,252
Total	106	\$128,608	18	\$12,292	124	\$140,900

¹⁰ [REDACTED] BMEUs had [REDACTED] postage statements, respectively, for April 2009.

¹¹ Bypass mail enters the mailstream without the BMEU recording the transaction, resulting in unrecognized revenue.

The most frequent cause for late postage statements was network connectivity issues with recently issued laptops employees used at DMUs associated with the [REDACTED] BMEU. BMEU and district BME management stated they were aware of this issue and had been working to resolve the issues. Employees could not provide a reason for the late entry of 16 statements. Four late statements were associated with time sensitive Periodicals that mailers dropped off after business hours. We considered these late because employees did not enter these statements on the next business day. Bypass mail accounted for three statements being entered late. We categorized four statements as being late for other reasons.

As shown in the preceding table, we did not consider 31 statements associated with time-sensitive Periodicals that mailers dropped off after business hours as late because employees entered them into PostalOne! on the next business day. In addition, 46 postage statements shown as late in PostalOne! were not late. Rather, employees had either entered the wrong mailing date or made reversals to correct initial data entry errors. Specifically, for 20 postage statements, employees had disqualified mail¹² but had mistakenly entered the mailing date as the date the mail was presented, versus the date the mail qualified. Some unit employees did not realize the date of mailing in PostalOne! must reflect the date mail was released to operations. We audited April 2009 data, but by June 2009, the time of our audit, the district had already recognized and resolved this issue. For 26 statements shown as late, employees responsible for checking the accuracy of postage statements reversed the postage statements to make corrections, for which the system reported the statements as late.

The district BME management stated they review MicroStrategy reports weekly to monitor for late postage statements. If the late statement is not caused by a known issue, management attempts to determine the cause for the late statements and contacts the individual units. We attribute the relatively small number of late postage statements at the [REDACTED] BMEUs to the district's monitoring efforts. Timely entry of postage statements is critical to the Postal Service recognizing revenue when due. We are reporting \$63,648 in non-monetary impact for revenue at risk related to the late postage statements at these two units.

Customer Trust Accounts

As of April 2009, the OIG BMEU PARIS model showed the [REDACTED] BMEUs having 906 inactive accounts totaling \$385,432. However, \$229,343 of this amount related to ADDPOS, of which only \$4,060 was inactive. During our audit, we identified 49 accounts, with balances totaling \$23,430, which employees should have closed. This represents a very small percentage of the 7,873 accounts the two units maintained. Specifically:

¹² Occurs when errors are identified during any of the verification procedures beyond established tolerances.

- Of [REDACTED] customer accounts at the [REDACTED] BMEU, 26 with balances totaling \$17,953 were inactive. BMEU management stated the Mailing Requirements staff assumed responsibility to monitor these accounts from Financial Control and Support in May 2009 and had overlooked them.
- Of [REDACTED] customer accounts at the [REDACTED] BMEU, 23 with balances totaling \$5,477 were inactive. The Technician responsible for monitoring the accounts stated she did not realize that Additional Postage and Periodicals accounts needed to be tracked manually. The Supervisor stated this responsibility had only recently been transferred from the district Mailing Requirement team to the unit.

Unit personnel took corrective action on all 49 inactive accounts by sending notices to the customers and either refunding the balances to customers or transferring the balances to miscellaneous non-Postal Service revenue.¹³

The Postal Service has an increased risk that mailings will not meet standards and revenue will be lost when controls are not effective or followed. We are reporting \$3,664 in monetary impact for recoverable revenue related to the inactive customer trust accounts at these two units.

Transaction Overrides

The [REDACTED] BMEUs had a large dollar value of piece weight, mailing fee and negative balance overrides in April 2009, as shown in the following table.

Unit	April 2009 Transaction Overrides					
	Piece Weight		Mailing Fee		Negative Balance	
	Number of Overrides	Revenue	Number of Overrides	Revenue	Number of Overrides	Revenue
[REDACTED]	59	\$47,516	27	\$12,272	208	\$243,046
[REDACTED]	123	185,012	51	154,503	85	93,943
Total	182	\$232,528	78	\$166,775	293	\$336,989

We determined the piece weight and mailing fee overrides were generally related to system issues not within the district or units' control. We will address these issues separately in our FY 2009 Financial Installation Audit – BMEUs report.¹⁴ That project

¹³ The units refunded \$17,391 to customers and transferred \$3,664 to Miscellaneous Non-Postal Revenue. In addition, three customers with balances totaling \$115 requested to keep their accounts. Technicians alerted the Pricing and Classification Service Center in New York, NY, for action on three accounts with balances totaling \$2,220. One customer with a balance of \$40 used their account.

¹⁴ Project Number 09BD002FF000 is associated with audits conducted in support of the audit of the U.S. Postal Service's financial statements.

will summarize Postal Service-wide issues relating to BMEUs. The negative balance overrides, however, were due to processes established at the BMEUs. See the following for discussion of each type of override.

- Piece Weight Overrides. The piece weight overrides are common overrides generated by PostalOne! for transactions that change the piece weight on the postage statements. According to Postal Service Headquarters BMA personnel, this is a known system glitch and there is a team currently trying to resolve this issue.
- Mailing Fee Overrides. The mailing fee overrides occurred due to a March 29, 2009, PostalOne! change that “de-linked” metered and pre-cancelled accounts from the master accounts.¹⁵ Units nationwide had to manually re-link each of these accounts. District BME management stated they have re-linked all the accounts.
- Negative Balance Overrides. The negative balance overrides occurred primarily because of the time lag resulting from when the BMEUs received a customer’s check and when the Retail Associate entered the payment into POS. If the unit received a payment outside this Clerk’s workhours, the Clerk did not input the payment into POS until the next business day, causing a negative balance that the Clerk overrode.

We randomly selected 60 negative balance overrides, of 208 at the [REDACTED] BMEU and 85 at the [REDACTED] BMEU, and we determined that BMEU personnel generally cleared all negative balances within 2 to 3 days.

The district BME Manager stated they review the override reports weekly and communicate with the units regarding the causes of the overrides. The district also added the override report to the daily certification on the district website and has required the units to review it daily since 2008. The district is studying the possibility of providing POS access to the BMEU Technicians which may help in reducing some of the negative balance overrides.

¹⁵ Nationwide, unit employees improperly shared fees in PostalOne!. Therefore, on March 29, 2009, Postal Service Headquarters “de-linked” all pre-cancelled and metered accounts from the master permit imprint accounts. The unit that accepted the fee payment had to “re-link” the fees. According to headquarters BMA personnel, they resolved all issues reported to them through system feedback, voice mail, and e-mail and are not aware of any outstanding “fee sharing” issues.

APPENDIX C: MONETARY AND NON-MONETARY IMPACT SUMMARY

This table presents the monetary impact results identified during the audit, rounded to the nearest dollar.

Finding Description	Recoverable Revenue
Inactive customer trust accounts	\$3,664 ¹⁶

This table presents the non-monetary impact results identified during the audit, rounded to the nearest dollar.

Finding Description	Revenue at Risk
Late postage statements	\$63,648
Periodicals mailings not verified	82,448 ¹⁷
Total	\$146,096

¹⁶ During the week of June 22, 2009, we notified the units of the need to send cancellation notices for 49 inactive accounts with balances totaling \$23,430. As of August 4, 2009, the unit had sent all cancellation notices and transferred balances and/or refunded customer accounts. We are claiming the amount transferred to Account Identifier Code 126, Miscellaneous Non-Postal Revenue, as monetary impact.

¹⁷ We computed total mailings for the three periodicals from June 2008 to May 2009. We calculated non-monetary impact by splitting the total pound and total piece into 50 percent in county and 50 percent out of county.

APPENDIX D: MANAGEMENT'S COMMENTS

DISTRICT MANAGER
CUSTOMER SERVICE AND SALES
NORTHLAND DISTRICT



September 23, 2009

SUBJECT: Response to OIG Audit Findings, [REDACTED] BMEU

Lucine M. Willis
Director, Audit Operations

This is in response to your September 8, 2009 memo that outlined findings identified by the OIG Financial Risk Audit conducted in Northland District. Please refer to Report Number FF-AR-09-DRAFT. Northland District agrees with the findings of the audit team. Below is the OIG finding requesting a response and the action planned.

Periodicals Mailings

District BME management allowed two time-sensitive Periodicals publishers at the [REDACTED] BMEU and one at the [REDACTED] BMEU to send mail with the Postal Service conducting random monthly in-depth verifications. The district BME Manager was aware of these issues and stated they occurred due to scheduling issues with the mailers. Specifically, the district BME Manager stated that two of the Periodicals are monthly publications and it is difficult to verify them because the mailer does not have a set schedule for dropping them off at the BMEU. The third publisher drops mail at a nearby general mail facility, which makes verification more difficult. The district BME Manager stated he is working with both mailers to make arrangements so Postal Service employees can conduct the random monthly in-depth verifications. The Postal Service has an increased risk that mailings will not meet standards and revenue will be lost when controls are not effective or followed.

We recommend the Manager, Northland District, direct Business Mail Entry management to:

1. Provide for random, monthly, and in-depth verifications of time-sensitive Periodicals.

Action Taken

A comprehensive plan for performing random monthly in-depth verifications has been developed and will be in place throughout Northland District. The effective date for this is November 1, 2009.

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If you should have any further questions regarding this response, please contact Mark Janda, Manager, Business Mail Entry, at (612) 349-6395.



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