



August 6, 2010

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

SUBJECT: Audit Report – Revenue for Official Mail from the House of Representatives
Mailroom (Report Number FF-AR-10-210)

This report presents the results of our audit of the processes for accepting, verifying, and collecting revenue for official mail from the U.S. House of Representatives (Project Number 10BD009FF000). Our objectives were to identify and assess the Postal Service controls over the acceptance, verification, and revenue collection of this mail. Specifically, we evaluated how the Business Mail Entry Unit (BMEU) verifies and accepts franked mail¹ received from the U.S. House of Representatives (House) and assessed the controls in place over those processes. Additionally, we assessed the controls over transferring the House bulk mailing transactions between the associated computer systems. This audit was initiated based on concerns raised by the House of Representatives mailroom, and it addresses financial risk. See [Appendix A](#) for additional information about this audit.

Title 39, U.S.C Chapter 32, establishes the franked mail privilege for the vice president and members of Congress. The Postal Service accepts, processes, and delivers franked mail sent under an authorized individual's signature, or facsimile signature, without prepayment of postage. The Southern Maryland BMEU accepts and processes mail from the House of Representatives, and the Eagan Accounting Service Center (ASC) bills the House Finance Office monthly for all House mailings processed.

Conclusion

The Postal Service's process for verifying and accepting franked mail at the Southern Maryland BMEU did not fully comply with Postal Service mail acceptance policy. Further, the Eagan ASC could improve the controls over transferring bulk mailing transactions between computer systems to ensure invoices provided to the House are complete and accurate.

¹ Franked mail uses a House of Representatives member signature or a facsimile on mailpieces in lieu of postage.

Verification and Acceptance of Franked Mail at the Southern Maryland BMEU

The Southern Maryland BMEU did not count and report individually franked mailpieces presented by the House mailroom operator as required by Postal Service policy.² Instead, the Postal Service relied solely on reports from the House Finance Office to prepare monthly invoices. BMEU management questioned whether all postage for House mail was collected and why they did not have an opportunity to verify the piece counts. However, they continued to accept the mail with little or no verification because they did not have alternative verification processes, such as those available under an alternate mailing system agreement, approved for use. As a result, the Postal Service billed the House \$3.2 million for mail from January 3, 2009, through January 2, 2010, without verifying the charges were accurate. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the vice president, Business Mail Entry and Payment Technologies:

1. Coordinate with the U.S. House of Representatives mailroom and the Southern Maryland Business Mail Entry Unit to develop and implement processes to verify postage claimed for individually franked mailpieces, such as establishing alternate mailing system agreements.

Recording House Mail Transactions

The ASC did not have a process to ensure all House of Representatives bulk mailing transactions recorded in the Official Mail Accounting System (OMAS) were also recorded in Franked Mail Reporting System (FMRS).³ According to policy, the Postal Service must track and bill mailing activity on a direct accountability basis rather than by sampling.⁴ The ASC extracts data from OMAS about three times per month, loads it into FMRS, and then uses FMRS to prepare the monthly invoice to the House Finance Office. However, the ASC did not reconcile monthly the data in FMRS with OMAS and, therefore, was not sure all bulk mailing data was included in FMRS and was correctly billed. As a result, in February 2010, the ASC was unaware of 24 missing transactions, valued at \$202,133, until the House Finance Office informed them of discrepancies between the invoice and the finance office records. The ASC missed the transactions, because they did not ensure the data extracted from OMAS was complete.

During the audit, the ASC developed a methodology and worksheet to compare total amounts billed to the House of Representatives to the amounts reported by OMAS each

² POM Issue 9 - *Postal Operations Manual*, Section 491.13, July 2002, Updated With Postal Bulletin Revisions Through December 3, 2009.

³ The Postal Service uses OMAS to track the mailing activity of government agencies. OMAS serves as an informational database that stores and accumulates official mail revenues. The FMRS is the system the ASC uses to record mailing data and prepare monthly invoices for the House Finance Office.

⁴ Handbook DM-103, *Official Mail*, Section 453.1, February 1998, Updated With Postal Bulletin Revisions Through December 9, 2004.

month. These actions will identify missing transactions, and, therefore, we are not including a recommendation for this issue.

Management's Comments

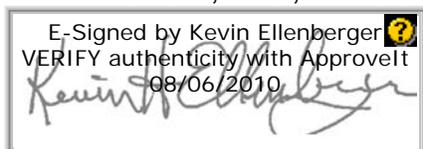
Management agreed with the finding. The manager of Business Mailer Support will establish a special postage payment system agreement between the House of Representatives mailroom provider and the Southern Maryland Business Mail Entry Unit. The agreement will establish alternate verification procedures to ensure collection of accurate postage. Management set a target date of October 31, 2010, for implementation and will report on the process when complete. See [Appendix D](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendation and management's corrective actions should resolve the issues identified in the report.

The OIG considers recommendation 1 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. The recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Kevin H. Ellenberger, director, Field Financial, East, or me at 703-248-2100.



for John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachment(s)

cc: Joseph Corbett
Thomas G. Day
Steven J. Forte
Vincent H. DeVito, Jr.
Marie Therese Dominguez
Timothy C. Haney
Jamie Gallagher

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service accepts, processes, and delivers franked mail sent under an authorized individual's signature, or facsimile signature, without prepayment of postage. Title 39, U.S.C Chapter 32, establishes the franked mail privilege for the vice president and members of Congress. It also defines content requirements and provides restrictions on matter sent before an election cycle.

The House of Representatives submits either bulk mailings or individual franked mailpieces from district offices or from Washington, D.C.

- The Postal Service accounts for bulk mailings made by representatives in the same manner as penalty permit imprint mailings.⁵ Therefore, bulk mailings must meet the eligibility, marking, preparation, and physical standards for the class of mail and rate of postage claimed.⁶ Postal Service personnel record mailing data for bulk mailings in PostalOne! using a unique 5-digit agency cost code⁷ to identify the mail owner. The ASC records bulk mailing data in FMRS and uses the data to prepare monthly invoices.
- The Postal Service accounts for individually franked mailpieces two ways. First, the House member's local staff prepares a report of postage for pieces sent from the district office. The Postal Service uses the postage charges calculated and reported by the member's district office as a component of the monthly billing. The House mailroom also collects and processes mail from Washington, D.C. They use two separate systems to collect mailing data, by House member, as the mail is processed. A multi-line optical character reader (MLOCR) produces an automation rate mailing, and a system of computers with rate-calculating software weighs and rates single-piece rate mail. The House Finance Office reports this data, by member, to the ASC. The ASC records the data in FMRS and uses the data as the final component of the monthly billing.

The House of Representatives makes payment for franked mail by appropriation to cover the postage and fees. The Postal Service records charges in FMRS based on actual usage. Unlike some commercial mailers who prepay their postage, House members do not prepay postage. The ASC prepares reports by individual House member each month, based on postage statements and the self-reported data provided by the House Finance Office. They send consolidated invoices to the House Finance Office. The House Finance Office reviews and reconciles invoices and then transmits payment to the Postal Service. Once the Postal Service finalizes a billing period, representatives can view their individual bills in FMRS.

⁵ Handbook DM-103, Section 453.4.

⁶ Handbook DM-103, Sections 131 and 241.

⁷ Agency cost codes may be assigned to House committees and to administrative functions.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to identify and assess the Postal Service controls over verification and acceptance of franked mail at the Southern Maryland BMEU and to identify and assess the Postal Service controls over OMAS transactions posted to the FMRS by the ASC. Specifically, we evaluated how the BMEU verifies and accepts franked mail received from the House and assessed the controls in place over those processes. Additionally, we assessed the controls over transferring the House bulk mailing transactions from OMAS to FMRS.

To accomplish our objectives, we met with personnel from Postal Service Headquarters, the ASC, Southern Maryland BMEU, House Postal Operations, and the House Finance Office. We developed an understanding of the processes related to the preparation, acceptance, posting, reconciliation, and billing for franked mail. We conducted observations of the processes where possible and analyzed the reporting and recording of mail data for February and March 2010.

We conducted this performance audit from March through July 2010 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on June 18, 2010, and included their comments where appropriate.

We relied on data obtained from FMRS and Postal Service database systems. We assessed the reliability of data by tracing transactions from PostalOne! to OMAS and then to FMRS. We reconciled data recorded in OMAS to data recorded in FMRS for February and March 2010. We determined that the data were sufficiently reliable for the purposes of this report.

PRIOR AUDIT COVERAGE

The U.S. Postal Service Office of Inspector General (OIG) did not identify any prior audits or reviews related to the objective of this audit.

APPENDIX B: DETAILED ANALYSIS

Verification and Acceptance of Franked Mail at the Southern Maryland BMEU

We found the Southern Maryland BMEU did not count and record the number of pieces and postage for franked mail with the House mailroom operator. According to Postal Service policy,⁸ the Postal Service must participate in the counting and reporting of franked mail sent by the House of Representatives from Washington, D.C. The mailings consisted of nonidentical weight pieces and could not be weight-verified, which is the normal procedure. Postal Service management did not authorize the use of any alternative verification procedures that are generally available only under a special postage payment system (SPPS) agreement.⁹ Management chose not to establish such agreements in the past and to accept the mail without verification. As a result, the Postal Service accepted and billed the House Finance Office for \$3.2 million of mailings with very limited verification.

The House mailroom comingles House member's individual franked mailpieces and presents them each evening to the Southern Maryland BMEU for acceptance, processing, and delivery. Using two separate software applications, the mailroom calculates postage, tabulates pieces and postage by member, and generally presents three mailings of individually franked mail to the BMEU for acceptance.

First, the House mailroom presents an automation rate mailing consisting of machine-readable¹⁰ letters weighing 1 ounce or less. The mailroom uses an MLOCR to barcode and sort the nonidentical weight pieces. They then present the mailings to the Southern Maryland BMEU for acceptance, with a postage statement and presort documentation generated by the MLOCR software.

From the remaining franked mail, the mailroom separates letter-sized pieces and cards to prepare a second mailing. The mailroom counts the pieces and places them in trays but does not sort them. They manually prepare a postage statement using the 1-ounce, First-Class Mail[®], single-piece rate to estimate postage, although some pieces may be cards and others may exceed 1 ounce. The mailroom presents the mail at the Southern Maryland BMEU for acceptance with the estimated postage statement.

Finally, the mailroom presents flat-sized pieces and parcels for acceptance at the Southern Maryland BMEU with no postage statement.

⁸ Postal Operations Manual, Section 491.13.

⁹ According to Handbook DM-109, *Business Mail Acceptance*, Chapter 9, March 2010, SPPS agreements provide alternative methods for mailers to calculate and pay postage. SPPS mailers are required to receive Postal Service authorization for these alternate methods. Verification procedures for SPPS vary from usual procedures, and are described in detail in the standard operating procedures guiding the SPPS agreements.

¹⁰ The House mailroom stated the MLOCR they use does not read script. Pieces processed on the MLOCR have typewritten addresses.

The mailing systems, used to prepare the mail, capture and record the number of pieces and the actual postage by each House member. The mailroom could, but does not, report actual postage for all of the pieces presented.

The BMEU is not complying with Postal Service policy because the unit does not participate in the weighing and rating of the mail. The BMEU does not have processes in place to verify and record the results presented by the House mailroom. The unit cannot weight-verify¹¹ any of the three mailings to determine the number of pieces presented, because the pieces are of a nonidentical weight. Further, only the automation-rate postage statement reports the actual postage calculated.

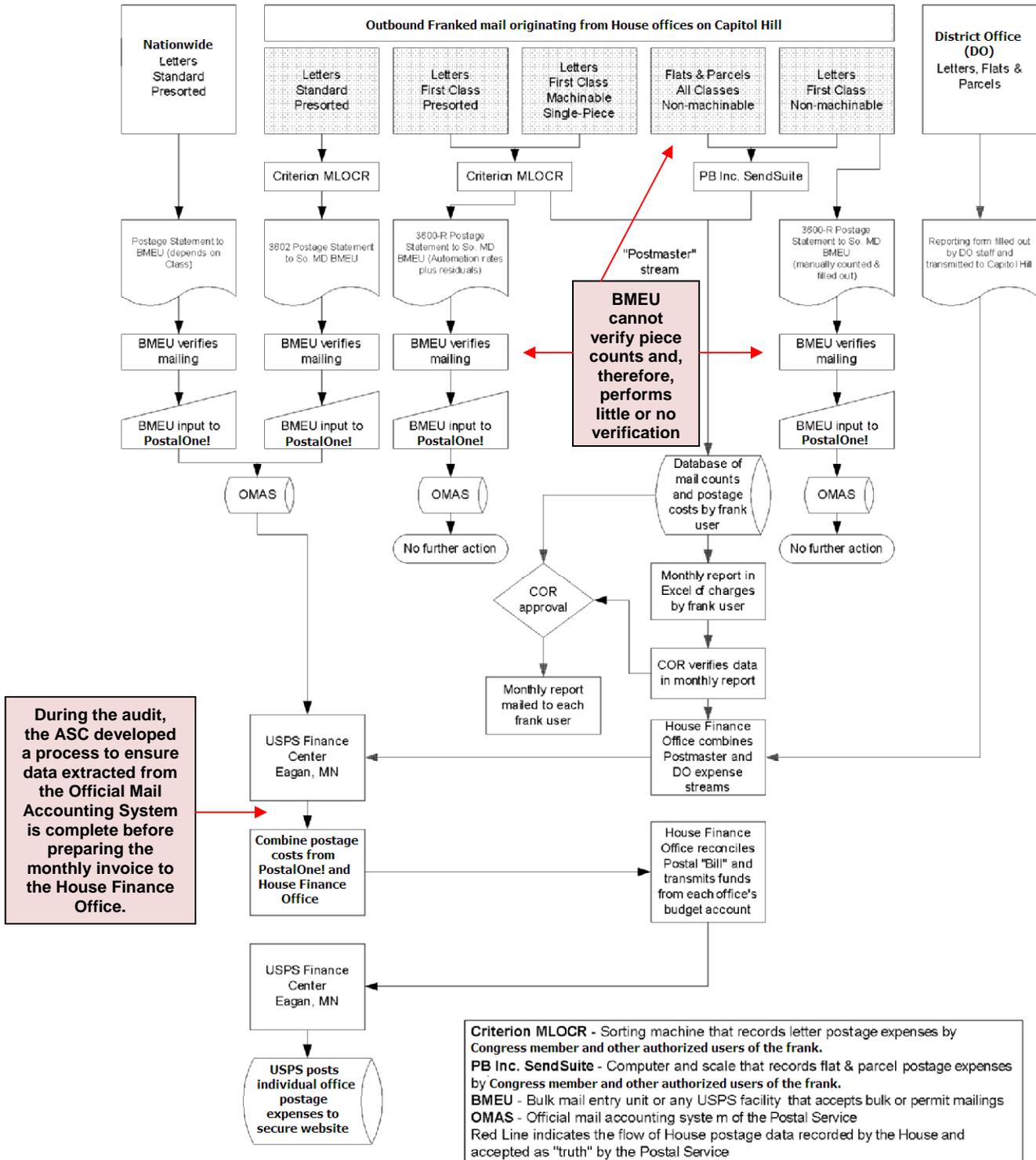
We believe SPPS agreements would provide authority for the BMEU to use alternate procedures to verify the number of pieces and postage. Additionally, under an agreement, the mailroom would be required to provide actual pieces and postage details on postage statements. Further, we reviewed Postal Service system certifications and determined the weighing and rating system used by the mailroom for flats and parcels has a manifest component that is Manifest Analysis and Certification (MAC™) certified.¹² The Postal Service reviewed two versions of the software and approved them for producing single-piece manifest mailings. The Postal Service should consider this capability when developing a verification process.

See [Appendix C](#) for a flowchart provided by the House Postal Operations that also includes notations indicating where we identified deficiencies in the processes. Following the flowchart is supplemental information describing the current House mail and billing processes.

¹¹ Weight-verification is a process used by BMEU personnel to determine the number of pieces in a mailing when all pieces in the mailing are the same weight. The net weight of a mailing is divided by the weight of a single piece. The result is the number of pieces in the mailing.

¹² The MAC program tests vendor-supplied manifesting software to determine whether it calculates postage and fees accurately and is able to produce listings of mailpieces, facsimile postage statements, and other documentation that meet applicable Postal Service standards. The Postal Service certifies the software if it successfully passes the MAC test.

APPENDIX C: HOUSE MAIL PROCESSES FLOWCHART



Supplemental Information

The following describes the current House mail and billing processes.

House Mail Collection and Initial Processing by the House Mailroom

House mailroom personnel collect individual franked mailpieces, mailed from Washington, D.C., at the House office buildings and transport mailpieces to a processing facility near the Southern Maryland BMEU. They separate the pieces into two categories and process them on two different mailing systems.

Processing Machine-Readable Franked Mail

First, the mailroom processes machine-readable individual franked mail letters that weigh 1 ounce or less on an MLOCR. The MLOCR barcodes and sorts the mail for presentation at the automation rates. The software also generates a postage statement and presort documentation.

The MLOCR software counts the number of pieces mailed and postage charges by each House member during the processing run. The software uses barcodes preprinted on the envelopes to identify the mailer of each piece. Because the mailing consists of pieces from multiple House members comingled in a single mailing, the mailroom cannot use a unique agency cost code on the postage statement. Therefore, the Postal Service cannot assign postage charges to each House member using the data from the postage statement. The House mailroom uses agency cost code 15510¹³ on postage statements for mailings of pieces from multiple House members.

Processing Other Franked Mail

The House mailroom uses the SendSuite system to weigh and rate all other individual franked mail.¹⁴ The system consists of networked personal computers with rate-calculating software, interfaced with a scale and scanner. As the system calculates postage for each piece, the software collects data that identifies the number of pieces and postage attributable to each member.

The House mailroom further separates single-piece rate, letter-sized pieces from the flats and parcels; places the letters in trays; and counts them. The number of letters is multiplied by the 1-ounce, single-piece rate to estimate postage. The mailroom manually prepares a postage statement using the estimated postage calculation. Because the pieces are from multiple members comingled in a single mailing, the mailroom uses

¹³ Agency cost code 15510 is the cost code used for individual franked mailpieces from Capitol Hill and placed into consolidated mailings by the House mailroom. The House mailroom presents the mail to the Southern Maryland BMEU for processing.

¹⁴ Other franked mail consists of letters that are not machine readable, weigh more than 1 ounce, or meet the dimensional criteria of flats and parcels.

agency cost code 15510 on the manually prepared postage statement. The mailroom presents flats and parcels to the BMEU without a postage statement or any other documentation.

BMEU Acceptance and Verification

The House mailroom usually presents three types of mailings to the Southern Maryland BMEU: automation and presorted letters; single-piece letters; and flats and parcels. Postage statements accompany each of the letter mailings. There is no documentation presented with the flats and parcels mail. All of the mailings consist of nonidentical weight pieces. As a result, the BMEU cannot weight-verify the mail. Further, there are no SPSS agreements establishing alternative verification procedures. Because the unit cannot verify the number of pieces in the mail, they cannot verify postage.

The BMEU performs Mail Evaluation Readability and Lookup Instrument (MERLIN) verifications as indicated by PostalOne! for the automation rate mailing. MERLIN checks barcode quality and address accuracy but does not verify the number of pieces or that the postage calculation is accurate. The BMEU releases the single-piece rate mail with little or no verification.

The BMEU records postage statements for the House of Representatives, with agency cost code 15510, into PostalOne!. However, the ASC does not transfer the data from the postage statements into FMRS, but instead relies on the data provided by the House Finance Office.

Reporting and Collecting Postage and Fees

The House mailroom rolls up all data collected by the two mailing systems into a report and provides it to the House Finance Office each month. The House Finance Office reports the data, by member, to the ASC, who manually records the data in FMRS. This data replaces the postage statement data for the consolidated franked mailings previously recorded in PostalOne! but not transferred to FMRS. From January 3, 2009, through January 2, 2010, the ASC posted \$3.2 million in FMRS.

The ASC transfers individual House member bulk mailing and meter credit data from OMAS and records the data reported by the House Finance Office (individual franked mail) to populate FMRS. Each month, the ASC prepares individual reports by agency cost code. They also submit consolidated invoices to the House Finance Office for payment. The invoices are prepared using reports from FMRS.

The House Finance Office reviews the billing and reconciles charges against House records. The ASC resolves disputed charges by working with the House Finance Office. Adjustments from prior months, for either bulk mailing charges or individual franked mail charges, may be included on monthly invoices and are reported separately in FMRS. Payment is then transferred to the Postal Service.

APPENDIX D: MANAGEMENT'S COMMENTS

PRITHA MEHRA
VICE PRESIDENT
BUSINESS MAIL ENTRY & PAYMENT TECHNOLOGIES



July 28, 2010

OFFICE OF THE INSPECTOR GENERAL
LUCINA M. WILLIS, DIRECTOR AUDIT OPERATIONS

SUBJECT: Postal Service Response to Draft Audit Report – Revenue for Official Mail from the House of Representatives Mailroom (Report Number FF-AR-10-DRAFT)

The following is provided in response to the report from the Office of Inspector General with the subject *Draft Audit Report – Revenue for Official Mail from the House of Representatives Mailroom (Report Number FF-AR-10-DRAFT)*.

Recommendation 1

Coordinate with the U.S. House of Representatives mailroom and the Southern Maryland Business Mail Entry Unit to develop and implement processes to verify postage claimed for individually franked mailpieces, such as establishing alternate mailing system agreements.

Response

Management agrees with this finding and will instruct the Manager, Business Mailer Support to establish a Special Postage Payment System agreement between the mail service provider of the House of Representatives Mailroom and the Southern MD BMEU. The Special Postage Payment System agreement will establish an alternative verification process that will insure proper collection and documentation of postage and piece counts for the House of Representatives Mailings. Business Mail Entry and Payment Technologies will report on the procedure and process when it is established. Target date for implementation is October 31, 2010.

A handwritten signature in black ink that reads "Pritha Mehra".

Pritha Mehra

475 L'ENFANT PLAZA SW RM 3641
WASHINGTON DC 20260
202/268-8049

- 2 -

cc: Joseph Corbett
Thomas G. Day
Steven J. Forte
Vincent H. DeVito, Jr.
Marie Therese Dominguez
Timothy C. Haney
Jamie Gallagher
Vicki Bosch