



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

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**Processing of Meter Activity**

**Audit Report**

September 6, 2012

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Report Number FT-AR-12-012



OFFICE OF  
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GENERAL**  
UNITED STATES POSTAL SERVICE

# HIGHLIGHTS

September 6, 2012

## Processing of Meter Activity

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### **BACKGROUND:**

The U.S. Postal Service uses postage meters to print evidence that postage required for mailing has been paid. These include customer, contract postal unit (CPU), and Post Office meters. Unlike customer meters that require sufficient funds to be deposited before postage is added, CPU and Post Office meters are not prefunded. Also, payment is made and revenue is recorded only when postage is used. Therefore, the integrity of reported revenue depends on strong controls over processing CPU and Post Office meter activity.

The Postal Service uses a meter tracking system to compare reported revenue to meter usage records. The Eagan, MN, Accounting Reconciliation Branch is responsible for monitoring and correcting any variances (or differences) to ensure revenue is accurately reported. CPU and Post Office meter revenue for fiscal year 2011 was about \$179 million.

Our objective was to evaluate Postal Service controls over CPU and Post Office meters.

### **WHAT THE OIG FOUND:**

Controls over CPU and Post Office meters needed improvement. Specifically, since June 2011, staff did not monitor CPU and Post Office meter variances because documented

procedures did not exist for variance monitoring and correction. We reviewed variances from October 2003 through March 2012 and found 867 meters with usage exceeding reported revenue totaling about \$5.6 million. We referred three unexplained variances totaling \$368,701 to the U.S. Postal Service Office of Inspector General's Office of Investigations.

Further, the meter tracking system reported previously resolved variances, so management would need to spend time manually identifying previously corrected variances. We also did not find any issues with field processes that would cause significant meter variances.

During the audit, management developed, documented, and implemented a process to monitor and correct CPU and Post Office meter variances. Management also implemented a system change to identify and remove corrected variances from the variance report.

### **WHAT THE OIG RECOMMENDED:**

Management took corrective actions during our audit to address the issues identified in this report; therefore, we are not making any recommendations at this time but will monitor corrective actions.

[Link to review the entire report](#)



September 6, 2012

**MEMORANDUM FOR:** TIMOTHY F. O'REILLY  
VICE PRESIDENT, CONTROLLER

PRITHA MEHRA  
VICE PRESIDENT, MAIL ENTRY AND  
PAYMENT TECHNOLOGY

KELLY SIGMON  
VICE PRESIDENT, CHANNEL ACCESS

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". A small yellow question mark icon is located in the top right corner of the box.

**FROM:** John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

**SUBJECT:** Audit Report – Processing of Meter Activity  
(Report Number FT-AR-12-012)

This report presents the results of our audit of the Processing of Meter Activity (Project Number 12BG017FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, director, Financial Reporting, or me at 703-248-2100.

Attachments

cc: Joseph Corbett  
Nagisa Manabe  
Stephen Masse  
Jean D. Parris  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our audit of the processing of meter activity (Project Number 12BG017FT000). Our objectives were to evaluate U.S. Postal Service controls over meters at contract postal units (CPU)<sup>1</sup> and post offices and missing meters.<sup>2</sup> This self-initiated audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

The Postal Service uses postage meters to print evidence that postage required for mailing has been paid. The meters include customer, CPU, and Post Office meters and are available only through Postal Service authorized providers. Authorized postage meter providers include Data-Pac Mailing Systems, FP Mailing Solutions, Hasler, Neopost, and Pitney-Bowes. The Postal Service holds providers responsible for the control, secure operation, distribution, replacement, and secure disposal or destruction of postage meters.

Payment varies for postage loaded onto meters. Customer meters require sufficient funds to be deposited with the Postal Service before postage is added, and the Postal Service records revenue at that same time. Unlike customer meters, CPU and Post Office meters are not prefunded, and the Postal Service records revenue only when postage is used.

CPU and Post Office personnel record daily meter usage on Postal Service (PS) Form 3602-PO, Postage Collected Through Post Office Meter. That information serves as supporting documentation for daily revenue reported by the CPUs and post offices on PS Form 1412, Daily Financial Report.<sup>3</sup> Fiscal year (FY) 2011 revenue for CPU and Post Office meters was about \$179 million.

When postage is added to a CPU or Post Office meter, the National Meter and Accounting Tracking System (NMATS)<sup>4</sup> calculates meter postage used since the prior setting and compares the usage to reported revenue from the PS Form 1412 for the same time period. Variances exist when the calculated usage differs from reported revenue. The Accounting Reconciliation Branch (ARB) at Accounting Services in Eagan, MN, is responsible for monitoring these variances for corrective action. Field personnel do not have any formal responsibilities for monitoring meter variances.<sup>5</sup>

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<sup>1</sup> A retail unit operated for the Postal Service by an individual or company in the private sector that provides nearly all retail services to postal customers.

<sup>2</sup> Missing meters are those reported as lost or stolen.

<sup>3</sup> PS Form 3602-PO must be submitted, verified, and retained as supporting documentation for the meter revenue reported by the Post Office. From registers on the meter (the ascending register records usage and the descending records postage remaining), CPUs and post offices manually record the beginning and ending postage meter register readings each day on PS Form 3602-PO. The change between the beginning and ending ascending register readings represents the meter usage for the day.

<sup>4</sup> NMATS tracks the installation and settings of postage on meters based on meter providers' records to account for the revenue generated and meter location.

<sup>5</sup> Handbook F-101, *Field Accounting Procedures*, dated February 2012, governs procedures for field units. Field units include post offices and CPUs.

## Conclusion

Controls over CPU and Post Office meters needed improvement. Specifically, ARB personnel did not monitor variances between NMATS meter usage records and CPU or Post Office reported meter revenue for corrective action, increasing the risk that revenue is not properly reported. Prior to June 2011, ARB personnel performed this task, but management stated they discontinued it when personnel who monitored and corrected variances left the agency.

Further, NMATS reported previously resolved variances, so management could not easily distinguish between previously resolved variances and those not yet reviewed. This occurred because NMATS did not have a feature to allow ARB personnel to flag corrected variances for removal from current variance reporting. As a result, personnel would need to spend time manually identifying previously corrected variances.

Additionally, during the audit, management requested we review field processes related to CPU and Post Office meters to determine a potential cause for meter variances. Specifically, management inquired whether issues existed with field personnel reporting postage collected through Post Office meters. We did not find any issues with field processes that would cause reportable meter variances. Accordingly, we are not making any recommendations at this time.

## Contract Postal Unit and Post Office Meter Revenue Variances

ARB personnel did not monitor variances between NMATS meter usage records and CPU or Post Office reported meter revenue for corrective action. Prior to June 2011, ARB personnel performed this task, but management stated they discontinued it when personnel who monitored and corrected variances left the agency. As a result, revenue may not be properly reported by the CPUs or post offices.

We reviewed variances from October 2003<sup>6</sup> through March 2012 and found 867 meters with negative variances (meter usage exceeded reported revenue) totaling about \$5.6 million. We judgmentally selected 43 meters, representing 80 percent of the total dollar amount of negative variances, and found four meters with unexplained negative variances, totaling about \$393,525. Three of the meters' variances totaled \$368,701, which management forwarded to area accounting managers for resolution.<sup>7</sup> We referred these variances to the U.S. Postal Service Office of Inspector General's (OIG) Office of Investigations. Management forwarded the other meter's variance to the U.S. Postal Inspection Service to pursue collection but was unable to provide collection results. The remaining 39 meters had variances resulting from erroneous NMATS records that did

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<sup>6</sup> Records are available for variances reported after September 2003.

<sup>7</sup> Variances reported by NMATS are only an indicator of a potential problem. The ARB does not have sufficient information to make accounting entries; therefore, they forward variances they are unable to resolve to area accounting managers and district finance managers for follow up. As a result, we could not determine or report actual revenue loss.

not impact reported revenue or could not be researched due to the age of the transaction.<sup>8</sup>

Postal Service policy states that Accounting Services must make every effort to determine the extent of any unreported field unit financial activity to ensure that the monthly financial reports are fairly represented.<sup>9</sup> Additionally, it states that Accounting Services' procedures must be documented with detailed desk procedures and process descriptions.<sup>10</sup> However, documented procedures did not exist to monitor variances for corrective action.

As a result of our audit, management developed and implemented a review process with documented procedures and controls to monitor and correct variances. Additionally, they assigned three staff members to the review process as part of their regular duties. Management also forwarded potentially under reported revenue to area accounting managers for resolution. They anticipate being current in the review process by December 31, 2012. Since management implemented a review process, we are not making any recommendations. We will continue to monitor the review process as part of our ongoing financial statement audit work.

### System Limitations

NMATS reported previously corrected variances so management would not be able to easily distinguish between previously resolved variances and those not yet reviewed.<sup>11</sup> This occurred because NMATS did not have a feature allowing ARB personnel to flag corrected variances for removal from current variance reporting. As a result, personnel would need to spend time manually identifying previously corrected variances.

During our audit, management implemented a system change to identify and remove corrected variances from the variance report. Therefore, we are not making any recommendations at this time. We will continue to monitor the area as part of our ongoing financial statement audit work.

### Field Procedures

In addition to our planned audit objective, management requested that we review field procedures related to CPU and Post Office meters to determine a potential cause for meter variances. Specifically, management inquired whether issues existed with personnel reporting meter revenue on PS Forms 3602-PO. We judgmentally selected three CPUs and three post offices with meters from each of the seven Postal Service areas.<sup>12</sup> We requested supporting documentation for reported meter revenue for 1 week

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<sup>8</sup> Erroneous NMATS records (such as incorrect finance numbers) create variances but do not impact overall revenue.

<sup>9</sup> Handbook F-1, *Accounting and Reporting Policy*, Section 2-4.1.8.2, dated March 2011.

<sup>10</sup> Handbook F-1, Section 1-1.2.

<sup>11</sup> Prior to June 2011, the ARB was monitoring variances.

<sup>12</sup> We chose sites with \$10,000 or more in meter revenue to ensure regular meter use.

in FY 2011 from each site. Of the 42 sites contacted, 36 responded and we received 283 PS Forms 3602-PO. Our review disclosed:

- Five instances where personnel did not use PS Forms 3602-PO in sequential order.
- Eighty-six instances where PS Forms 3602-PO did not include the required supervisor's initials for verification of meter register readings.
- Seven instances where personnel did not record ascending register readings.
- Four instances where ending ascending or descending register readings did not match the next day's beginning reading.
- Seven instances where revenue reported on PS Forms 1412 differed from meter usage recorded on PS Form 3602-PO.

None of the issues identified resulted in a difference that was material in relation to overall revenue or that exceeded the NMATS variance reporting threshold. NMATS does not report variances unless they exceed 2 days of average usage for that meter. Since none of the issues we found would cause reportable meter variances, we are not making any recommendations at this time.

Because we made no recommendations, management chose not to respond formally to this report.

## Appendix A: Additional Information

### Background

The Postal Service regulates postage meters and their use to protect postal revenue through the NMATS. Postage meters are available only through Postal Service authorized providers and are required to have two registers. The ascending register records postage used and it increases as postage is printed. The descending register records the postage value remaining on the meter and it decreases as postage is used. Meter providers send electronic files to the Postal Service on meter installations, withdrawals, and postage added to or refunded from a meter.

Meters are reset<sup>13</sup> remotely at the location of the meter. Payment for postage loaded onto meters varies by meter type, including customer meters, CPU, and Post Office meters. Only customer meters are required to have funds on deposit with the Postal Service before postage can be added to the meter. Postage is added to CPU and Post Office meters without being prefunded. Payment for CPU and Post Office meter postage is made when customers use it, and revenue is then reported by the CPU or Post Office on PS Form 1412.<sup>14</sup> The ARB is responsible for monitoring variances between reported revenue and postage meter usage records, available from the NMATS variance report.

NMATS generates a variance report that identifies differences between reported CPU and Post Office meter revenue and postage meter usage records.<sup>15</sup> Meter providers send NMATS the register readings when postage is added to a CPU or Post Office meter. NMATS calculates meter usage by determining the difference between the current ascending register received and the ascending register from the previous setting. Additionally, reported revenue from the CPU or Post Office's PS Form 1412 is summarized for the same setting period. NMATS reports a meter variance only if the difference exceeds 2 days of average daily meter usage. The ARB monitors the variance report and contacts CPUs and post offices if necessary to resolve variances. When the ARB cannot resolve a variance, they forward it to the applicable area accounting manager and district finance manager for correction.

Meter providers are required to have inventory control processes for postage meters.<sup>16</sup> Additionally, the Postal Service requires providers to disable the ability to reset a meter upon initial report or discovery of a lost or stolen meter. The meter provider cannot send a setting on a meter in lost or stolen status but may subsequently reactivate the meter in

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<sup>13</sup> Reset is a term used when referring to adding postage to a meter.

<sup>14</sup> PS Form 3602-PO must be submitted, verified, and retained as supporting documentation for the meter revenue reported by the Post Office. CPUs and post offices manually record the beginning and ending postage meter register readings each day on the PS Form 3602-PO. The change between the beginning and ending ascending registers represents meter usage for the day.

<sup>15</sup> Meter providers send electronic records to NMATS when postage is added to a CPU or Post Office meter. NMATS uses the records to calculate postage used since the prior setting by subtracting the ascending reading at the time of the prior setting from the current ascending reading.

<sup>16</sup> Title 39 U.S.C. §501.14.

their system and send setting information to NMATS. The ARB verifies the meter status and customer information in NMATS.

### Objectives, Scope, and Methodology

Our objectives were to evaluate Postal Service controls over CPU and Post Office meters. To accomplish our objectives, we:

- Reviewed Postal Service policies and procedures.
- Interviewed management and field personnel.
- Judgmentally selected and reviewed a sample of meters with negative variances to determine if revenue was under reported.
- Judgmentally selected three CPUs and three post offices with meters from each of the seven Postal Service areas to determine if field processes contributed to variances.

Our initial objective also included evaluating controls over missing meters. Although we identified 341,680 missing meters,<sup>17</sup> our preliminary review determined the overall risk of lost revenue is low. Upon initial report of a missing meter, providers disable the ability to add postage, so there is no future risk of lost revenue. For remaining balances on missing customer meters, there is no risk to the Postal Service since the postage is prepaid. For CPU and Post Office meters, the risk is limited to any remaining balance. CPUs are bonded and the maximum allowed amount of postage on CPU meters may not exceed the CPU bond limit. Also, Post Office meters may not exceed the estimated 30-day usage amount. Therefore we did not keep this area as part of our objective.

We conducted this performance audit from January through September 2012 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 September 4, 2012.

We relied on computer-generated data from NMATS. We assessed the reliability of NMATS data by tracing selected financial information to the supporting source records. We determined that the data were sufficiently reliable for the purposes of this report.

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<sup>17</sup> As of December 31, 2011, reported by NMATS. Management stated the number of missing meters includes all meters reported lost or stolen and not recovered since the mid 1990s.

### Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objectives of this audit. However, as part of our annual financial statement audit work, we review controls relating to meter liability and revenue.