



February 9, 2010

JORDAN M. SMALL
VICE PRESIDENT, NETWORK OPERATIONS

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

SUBJECT: Audit Report – Plant-Verified Drop Shipment Controls
(Report Number MS-AR-10-001)

This report presents the results of our self-initiated audit of plant-verified drop shipment (PVDS) controls (Project Number 09RG007MS000). PVDS allows for the verification of mail and postage payment at a U.S. Postal Service facility (origin facility) and then the mailer or its representative to transport the mail (drop ship) to another Postal Service facility (destination facility) to obtain postage discounts. In fiscal years (FY) 2008 and 2009, revenue from destination-entered Standard Mail[®] was \$15.3 billion and \$13 billion, respectively. Because the Postal Service does not track mail volume by verification procedure, specific figures are not available for the plant verified portion of destination-entered mail.

Our objective was to determine whether controls are adequate to prevent PVDS mailers from adding mail en route, after verification at the origin facility¹ but before it reaches the destination Postal Service facility. This audit addresses operational risk to the Postal Service. See [Appendix A](#) for additional information about this audit.

Conclusion

Controls are not adequate to prevent mailers from adding mail en route to the destination Postal Service facility and to ensure the Postal Service receives all revenue due from PVDS. PVDS mailers can add mail en route, after verification at the BMEU, DMU, or other origin location, but before it reaches the destination Postal Service facility. As a result, the Postal Service is at risk of significant revenue loss.

¹ The origin facility is normally a business mail entry unit (BMEU) or a detached mail unit (DMU), which is a Postal Service work area or office located in a mailer's plant or place of operation. Postal Service acceptance employees are assigned to DMUs to verify mail.

Procedures for Verifying PVDS at Destination Facilities Need Strengthening

Employees do not adequately verify PVDS at the destination facilities. Specifically, employees verify the pallet or container counts but do not weigh the shipments. Therefore, additional mail volume can be added without detection. Postal Service guidelines allow accepting mail if the pallet and container count matches the Postal Service (PS) Form 8125, Plant-Verified Drop Shipment (PVDS) Verification and Clearance.² Guidelines do not take into consideration that mail volume can be added to the pallets or containers after verification at the origin office. In addition, scales have been removed from most destination facility dock areas, preventing the weighing of the PVDS at the facility. Without adequate verification procedures at the destination facility, the Postal Service cannot be assured of collecting all revenue due from these shipments. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the vice president, Network Operations, coordinate with the vice presidents, Area Operations, to:

1. Update Publication 804, *Drop Shipment Procedures for Destination Entry*, and other applicable manuals and handbooks to require weight verification for all shipments at destination.
2. Provide scales at plant-verified drop shipment verification areas for weight verification at destination facilities.

Altered and Noncompliant PS Forms 8125

Employees accepted PVDS mailings with altered and noncompliant PS Forms 8125. Specifically, 16 (6.35 percent) of 252 PS Forms 8125 we reviewed, had been altered or were noncompliant with Postal Service policy but were accepted at the destination facility. Employees accepted 14 altered³ PS Forms 8125 without the required fax copy of the original document to ensure the alterations were appropriate. Additionally, employees accepted one PVDS at a different facility from the one listed on the form, and one form contained no pallet or container count or total gross weight.

This occurred because current Postal Service procedures require employees to manually compare PS Forms 8125 information received at the destination facility with information at the origin facility only when the form has apparent alterations. Therefore, PS Forms 8125 received at the destination facility are only compared with the original on an exception basis. Further, some employees⁴ and supervisors⁵ overseeing PVDS have not received training on verifying these shipments. An electronic process would

² Publication 804, *Drop Shipment Procedures for Destination Entry*, Section 6-5, August 2006.

³

⁴ Refer to Appendix B, Table 3.

⁵ Refer to Appendix B, Table 4.

allow for the efficient comparison of all PS Forms 8125 received at the destination facility with those prepared at the origin facility to detect any alterations. Without adequate verification, additional mail volumes can be added without being detected, and the Postal Service risks significant revenue loss. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the vice president, Network Operations, coordinate with the vice presidents, Area Operations, to:

3. Provide training to employees and supervisors who verify or oversee the verification of plant-verified drop shipments at destination facilities.

We recommend the vice president, Business Mail Entry and Payment Technologies, and the vice president, Network Operations, coordinate with the vice presidents, Area Operations, to:

4. Provide an electronic reporting solution whereby Postal Service Form 8125, Plant-Verified Drop Shipment (PVDS) Verification and Clearance, information at the destination facility can be compared with the information at the origin location. Discrepancies or incomplete forms should be investigated.

Management's Comments

Management disagreed with recommendations 1 and 2 and agreed with recommendations 3 and 4. Regarding recommendations 1 and 2, management stated the current verification process provides the necessary revenue assurance procedures; the risks associated with weight differences do not warrant the additional cost of procuring scales; and weight verification does not align with the Postal Service's Intelligent Mail Vision. However, management is developing training on the verification process for employees at destination facilities and will update Publication 804, *Drop Shipment Procedures for Destination Entry*, by spring 2010.

To address recommendation 3, management will provide online training to employees involved with destination network distribution center, destination area distribution center, and destination sectional center facility drop shipments by March 2010. Regarding recommendation 4, the Postal Service is planning to utilize the intelligent mail full-service option to provide controls over mailings receiving drop shipment discounts. Management indicated these features will include providing electronic PS Form 8125 information to processing facilities with surface visibility technology, and scanners will be used to validate the drop shipment facility and postage payment. Management has not established a schedule for implementing these features, but stated the features will be a critical component of seamless acceptance capabilities. See [Appendix C](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendation 3, and their corrective actions should resolve the issues identified in the report. However, management's comments are only partially responsive to recommendations 1, 2, and 4, and will not fully resolve the issues identified in the report. While we agree additional employee training on verifying PVDS mailings would be helpful in reducing risk, the current verification process does not ensure postage is paid for all mail volumes arriving at destination facilities. Specifically, mailers can add mail after verification at the origin facility without it being detected. In a subsequent meeting, management informed us that gross weight is no longer verified at origin, so weight verification at destination would not ensure proper payment. They agreed that mailers can add mail in transit without it being detected, and adherence to verification procedures could be improved. Management believes a planned training and certification initiative involving more than 8,000 business mail entry and plant personnel will improve controls over PVDS mailings until the intelligent mail infrastructure is fully implemented,

While the intelligent mail barcode and associated infrastructure will provide the capability to track mailpieces, only the full-service option provides some ability to confirm that the applicable postage was paid. However, the Postal Service did not make the full-service option for intelligent mail mandatory, and many mailers have not adopted this option. Additionally, management has no current schedule for the intelligent mail barcode and seamless acceptance capabilities that may provide electronic PS Form 8125 information. Therefore, interim verification procedures are still needed to ensure all drop shipments arriving at destination facilities have been properly verified at the origin location and the applicable postage paid. An interim electronic PS Form 8125 solution would improve controls over PVDS.

The OIG considers all the report recommendations significant. We view the disagreement on recommendations 1, 2, and 4 as unresolved. We do not plan to pursue recommendations 1 and 2 through the formal audit resolution process, and we will close them as not implemented upon issuance of this report. We view the disagreement on recommendation 4 as unresolved and plan to pursue it through the formal audit resolution process. OIG concurrence is needed to close recommendation 3. Please provide written confirmation when corrective actions are completed. This 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 Robert Mitchell, director, Sales and Service, or me at (703) 248-2100.



Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Revenue and Systems
Attachments

cc: Steven J. Forte
Thomas G. Day
Vice Presidents, Area Operations
Sally K. Haring

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

PVDS allows for the verification of mail and postage payment for Standard Mail[®], Periodicals, and Package Services at Postal Service facility (origin facility) and then the mailer to transport the mail (drop ship) to another Postal Service facility (destination facility).⁶ In FYs 2008 and 2009, revenue from destination-entered Standard Mail[®] was \$15.3 billion and \$13 billion, respectively. Because the Postal Service does not track mail volume by verification procedure, specific figures are not available for the plant verified portion of destination-entered mail.

Mailings are verified by Postal Service employees assigned to a DMU or at the BMEU servicing the mailer's plant. The mailer is required to include a postage statement that summarizes all the postage and volume information for the mailing. Also, a PS Form 8125⁷ is required for each segment of the mailing that is to be deposited separately at a destination Postal Service facility. BMEU acceptance employees are required to verify the accuracy of the postage statement and supporting documents and return the mail to the mailer with a dated and signed copy of PS Form 8125.⁸ The mailer then transports the mail to each drop location and presents the PS Form 8125 as proof that postage has been paid. In addition, the mailer is required to have a valid drop shipment appointment⁹ with the destination Postal Service facility. Upon arrival at the facility, Postal Service personnel must verify the shipment to PS Form 8125. If the information on PS Form 8125 matches the shipment, the mail is released to operations. Discrepancies on the PS Form 8125 should be appropriately investigated.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether controls are adequate to prevent PVDS mailers from adding mail en route, after verification at the BMEU, DMU, or other origin location, but before it reaches the destination Postal Service facility. To accomplish our objective, we:

- Reviewed and summarized guidance pertaining to drop shipment procedures at destination Postal Service facilities.

⁶ Destination entry rates apply to the following destination facilities: Destination sectional center facilities, destination area distribution centers, destination bulk mail centers, international service centers, and destination delivery units.

⁷ Three versions of the clearance documents are currently in use: PS Form 8125, PVDS Verification and Clearance; PS Form 8125-C, PVDS Consolidated Verification and Clearance; and PS Form 8125-CD, PVDS Consolidated Verification and Clearance – Drop Shipment Management System (DSMS).

⁸ Mailers authorized under the DSMS may submit PS Form 8125-CD to a destination postal facility without a Postal Service employee's signature or date.

⁹ Exceptions to the scheduling standard include: shipments containing 100-percent perishable commodities, shipments containing 100-percent Periodicals mail, or local mailers.

- Judgmentally selected and visited nine processing and distribution centers to observe destination drop shipment procedures. We:
 - Conducted on-site interviews to assess management oversight of the receipt of drop shipment mailings.
 - Reviewed Facility Access and Shipment Tracking (FAST) reports to verify shipment appointment identification numbers.
 - Conducted 25 observations to determine whether receiving employees accept PVDS mailings according to Postal Service policies and procedures.
 - Judgmentally selected PS Forms 8125 at each of the nine sites. Received 252 forms from the origin offices and compared mail volumes, total gross weight, processing categories, and destination entry rates back to the destination forms.

We conducted this performance audit from January 2009 through January 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 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 October 29, 2009, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

There are no prior OIG or Government Accountability Office audits conducted in the last 3 years related to PVDS.

APPENDIX B: DETAILED ANALYSIS

Procedures for Verifying PVDS at Destination Facilities Need Strengthen

Employees do not adequately verify PVDS at the destination facilities. Specifically, employees verify the pallet or container counts but do not weigh the shipments. Therefore, additional mail volume can be added without detection. We conducted 25 observations of employees verifying PVDS at nine destination facilities to assess compliance with approved procedures.

Table 1. Summary of Destination PVDS Observations¹⁰

QUESTION	Yes	No	Not Observed	Not Applicable	TOTAL
Review PS Form 8125 and verify that the:					
a. Employee completed the origin office section at the origin Postal Service facility.	24	1	0	0	25
b. Employee verifying the form signed the form.	21	4	0	0	25
c. Employee verified that the round stamp date or appropriate legend for alternate procedures was printed on PS Form 8125.	23	2	0	0	25
d. Employee ensured the mailers section is complete.	24	1	0	0	25
Verify the shipment and compare the mail to the PS Form 8125:					
a. The employee verified the class of mail was correct (Standard Mail, Package Services, Periodicals, or International).	9	15	1	0	25
b. The employee verified the processing category was correct (letters, flats, or parcels).	7	17	1	0	25
c. The employee verified the discount rates claimed are correct and the containers are destined for the facility where they are being deposited.	9	15	1	0	25
d. The employee randomly compared the actual mail product/publication title or names to the product/publication title or name listed.	9	15	1	0	25

¹⁰ Checklist taken from Publication 804, Section 6-5, August 2006.

QUESTION	Yes	No	Not Observed	Not Applicable	TOTAL
e. Ensure the volumes match the PS Form 8125. Counts must match. Verify the following:					
1. The employee counted the physical number of pallets/containers when the shipment was palletized/containerized.	23	2	0	0	25

Altered and Noncompliant PS Forms 8125

We compared a sample of 252 origin and destination PS Forms 8125. Sixteen (6.35 percent) of the 252 PS Forms 8125 accepted at the destination facilities were not in compliance with policy. Publication 804 requires destination employees to verify the entry office is the correct destination facility and ensure the shipment volume matches PS Form 8125. It further states if an alteration other than the mailer's contact information or drop shipment appointment information occurs on PS Form 8125, a fax copy of the original document must be sent to the destination facility. Therefore, PS Forms 8125 received at the destination facility are only compared to those prepared at the origin facility on an exception basis. An electronic process would allow for the efficient comparison of all PS Forms 8125 received at the destination facility to those prepared at the origin facility to detect any alterations.

Table 2. Altered and Noncompliant PS Forms 8125

Noncompliant Forms	Altered ¹¹	Other	TOTAL
Container count increased on destination PS Form 8125	4		4
Container count lowered on destination PS Form 8125	4		4
Containers and weight volume added to destination PS Form 8125	2		2
PVDS mailing accepted at wrong destination facility		1	1
Neither destination nor origin PS Forms 8125 listed container count or total gross weight		1	1
Origin PS Forms 8125 had no container count or total gross weight listed; however, destination PS Forms 8125 listed container counts and total gross weights	4		4
Totals	14	2	16

¹¹ A faxed copy of the original PS Form 8125 was not sent to the destination facility.

We interviewed employees and management working with PVDS at the destination facilities and found some did not receive training on verifying PVDS. (See Tables 3 and 4.)

Table 3. Training For Employees Who Verify PVDS

QUESTION	Yes	No	Not Sure	TOTAL
Have you received training on verifying PVDS?	7 ¹²	1	1	9

Table 4. Training For Supervisors¹³ Who Oversee PVDS

QUESTION	Yes	No	TOTAL
Are you familiar with policies, procedures, standard operating procedures, or other guidance for receiving, verifying, and accepting PVDS mailings?	6	3	9

¹² Employee received on-the-job training either from a trainer or from the expediter whom they replaced.

¹³ This includes supervisors, acting supervisors, network specialists, or FAST coordinators.

APPENDIX C: MANAGEMENT'S COMMENTS



December 21, 2009

Lucine Willis
Director, Audit Operations
1735 North Lynn Street
Arlington, VA 22209-2020

SUBJECT: Draft Audit Report – Plant-Verified Drop Shipment Controls
(Report Number MS-AR-10-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. The first three recommendations were directed to the Vice President, Network Operations, with coordination from the Vice Presidents, Area Operations.

Recommendation 1:

Update Publication 804, *Drop Shipment Procedures for Destination Entry*, and other applicable manuals and handbooks to require weight verification for all shipments at destination.

Response

Management disagrees with any recommendation for weight verification at destination for drop shipments. We believe that the current verification process provides the necessary revenue assurance procedures in today's environment. The risk associated with weight differences does not warrant the additional operating costs at the destination facility. In addition, the recommendation for weight verification at destination does not align with our Intelligent Mail Vision (July 2009) (<http://ribbs.usps.gov/index.cfm?page=intelligentmail>). Intelligent Mail is the technology platform for the next generation of mailing services, features, and products. Mailers and the Postal Service will gain end-to-end visibility into the mailstream through the use of the suite of Intelligent Mail barcodes and by submitting electronic documentation, which will create actionable information about mail for marketing, financial, and operation environments.

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We do recognize the need for employee training of the current verification process. An update to Publication 804, *Drop shipment Procedures for Destination Entry*, will be completed around spring 2010. Development of training for employees at destination entry offices is currently underway.

Recommendation 2:

Provide scales at plant-verified drop shipment verification areas for weight verification at destination facilities.

Response

Management disagrees with any recommendation for weight verification at destination for drop shipments. We believe that the current verification process provides the necessary revenue assurance procedures in today's environment. The risk associated with weight differences does not warrant the additional operating costs or the cost of procuring scales at the destination facility. In addition, the recommendation for weight verification at destination does not align with our Intelligent Mail Vision (July 2009) (<http://ribbs.usps.gov/index.cfm?page=intelligentmail>). Intelligent Mail is the technology platform for the next generation of mailing services, features, and products. Mailers and the Postal Service will gain end-to-end visibility into the mailstream through the use of the suite of Intelligent Mail barcodes and by submitting electronic documentation, which will create actionable information about mail for marketing, financial, and operational environments.

We do recognize the need for employee training of the current verification process. An update to Publication 804, *Drop Shipment Procedures for Destination Entry*, will be completed around spring 2010. Development of training for employees at destination entry offices is currently underway.

Recommendation 3:

Provide training to employees and supervisors who verify or oversee the verification of plant-verified drop shipments at destination facilities.

Response

Management agrees with this recommendation. Online training for approximately 8,000 employees involved with the receipt of Destination Network Distribution Center, Destination Area Distribution Center, and Destination Sectional Center Facility drop shipments will start during winter 2010 and will conclude before the end of March 2010. Participants will progress through various modules and learn about PS Forms 8125, Plant-Verified Drop Shipment (PVDS) Verification and Clearance, completion of critical elements on PS Form 8125, resolution of issues, and other subjects.

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The fourth recommendation was directed to the Vice President, Business Mail Entry and Payment Technologies and the Vice President, Network Operations, with coordination from the Vice Presidents, Area Operations.

Recommendation 4:

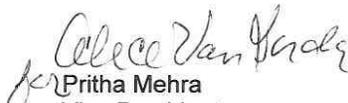
Provide an electronic reporting solution, whereby PS Form 8125, Plant-Verified Drop Shipment (PVDS) Verification and Clearance, information at the destination facility can be compared with the information at the origin locations. Discrepancies or incomplete forms should be investigated.

Management agrees with this recommendation. The Postal Service is planning to utilize Intelligent Mail features, such as the Full Service mailing option, to establish electronic business processes to provide tight controls on mailings receiving drop shipment price discounts. These features will include, but are not limited to, the provisioning of electronic PS Form 8125 mailing information to mail processing facilities enabled with Surface Visibility technology. This information will be used by the scanners to validate that a shipment belongs at the inducting facility and postage has been paid. These features have not yet been scheduled for system's development but are a critical component necessary to the implementation of final seamless acceptance business capabilities.

The draft report contained no Freedom of Information Act exempt information.



Jordan M. Small
Vice President
Network Operations


Pritha Mehra
Vice President
Business Mail Entry
and Payment Technology

cc: Mr. Forte
Mr. Day
Vice Presidents, Area Operations
Mr. Harris