



July 31, 2008

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VICE PRESIDENT, BUSINESS MAIL ENTRY AND PAYMENT TECHNOLOGIES

ALL AREA VICE PRESIDENTS

SUBJECT: Audit Report – Business Mail Entry Unit Sampling and Verification
Procedures (Report Number MS-AR-08-005)

This report presents the results of our self-initiated audit of the Business Mail Entry Unit (BMEU) sampling and verification procedures (Project Number 08RG002MS000). Our objective was to determine whether mail sampling and verification policies and procedures were followed to ensure that applicable postage was collected at BMEUs and associated Detached Mail Units (DMUs). This audit addresses BMEU operational risk. Click [here](#) to go to Appendix A for additional information about this audit.

Conclusion

Although Postal Service employees at BMEUs and associated DMUs followed mail sampling procedures, they did not always follow mail verification policies and procedures. Specifically, BMEU personnel did not always perform required verifications for large mailings or ensure adequate backup verification coverage.¹ As a result, they may not have collected all applicable postage.

In-Depth Verifications for Large Mailings Were Not Always Performed

At the six BMEUs and associated DMUs we reviewed, in-depth verifications were not always performed for mailings of 10,000 or more pieces. Specifically:

- At locations with a Mailing Evaluation Readability and Lookup INstrument (MERLIN) machine, manual verifications were not performed as required when mailings were not MERLIN compatible or the MERLIN was not available for use.
- Conflicting priorities did not allow personnel to both perform required verifications and staff the acceptance counter.
- Clerks did not always annotate whether verifications were required.

¹ All acceptance and verification at both BMEUs and DMUs are performed by BMEU personnel.

Because verifications were not always performed, the Postal Service was at risk of not collecting all applicable postage. Click [here](#) to go to Appendix B for our detailed analysis of this topic.

For the 360 postage statements and mailings reviewed,² the difference between the full rate if no discounts were applied and the rate at which the mail was entered totaled \$1,904,983. We will report this non-monetary impact as revenue at risk³ in our *Semiannual Report to Congress*.

We recommend the Vice President, Business Mail Entry and Payment Technologies:

1. Assess the placement and usage of Mailing Evaluation Readability and Lookup INstrument machines at all Business Mail Entry Units to determine efficiency and relocate the machines as needed to maximize usage.
2. Request PostalOne! software modifications to:
 - a) Create a field requiring Business Mail Entry Unit clerks to input verification results.
 - b) Generate a report to list mailings of more than 10,000 pieces that did not receive a required verification.
 - c) Create a field in the system annotating whether the mailing is due to receive a verification under a skip interval and allow the data to be permanently attached to the mailing information.
 - d) Create a field to direct clerks to annotate why required verifications were not performed, either manually or using the Mailing Evaluation Readability and Lookup INstrument.

We recommend the Vice President, Business Mail Entry and Payment Technologies, in coordination with the Area Vice Presidents:

3. Direct District Managers to review PostalOne! reports to determine the validity of reasons for any mailing of more than 10,000 pieces not receiving a required verification.

² The six locations we visited processed 28,630 mailings in December 2007.

³ Revenue the Postal Service is at risk of losing (for example, when a mailer seeks alternative solutions for services the Postal Service currently provides).

Backup Verification Coverage Was Not Established at One Detached Mail Unit

██████ BMEU management did not provide adequate staffing coverage at a DMU to conduct verifications on 15 nonconsecutive days (for example, Sundays and holidays) during December 2007.⁴ This occurred because the BMEU clerk assigned to the DMU was on leave or was not scheduled to work. Further, BMEU management had no established procedure for assigning backup personnel at the DMU. Click here to go to [Appendix B](#) for our detailed analysis of this topic.

As a result, the Postal Service was at risk of not collecting all applicable postage. For the postage statements and mailings we reviewed, the revenue at risk is \$613,025. We will report this non-monetary impact as revenue at risk in our *Semiannual Report to Congress*.

We recommend the Vice President, Business Mail Entry and Payment Technologies, in conjunction with the Area Vice Presidents:

4. Direct Business Mail Entry Unit managers to analyze staffing and efficiency to determine staffing requirements at direct mail units and develop a procedure for assigning backup personnel as needed to perform the required verifications.

Management Actions

The Postal Service is implementing a Performance Based Verification (PBV) initiative. (See [Appendix A](#).) While PBV may address some of the issues we identified, the program was in the testing phase during our audit. Consequently, we have not evaluated the effectiveness of this initiative. In addition, Postal Service management is taking actions to ensure that personnel receive the required training⁵ and to begin rotating staff between the ████████ BMEU and DMU.

Management's Comments

Management agreed with our recommendations and non-monetary impact. Management will reallocate MERLINS after PBV features of the PostalOne! system are deployed. They will request PostalOne! software modifications as recommended, and will require district managers to determine why mailings over 10,000 pieces did not receive required verifications. Finally, management will require BMEU managers to develop procedures to assign backup staff as needed to perform required verifications. Management's comments, in their entirety, are included in [Appendix C](#).

⁴ We included calendar year (CY) 2007 revenue for the DMU in the ████████ BMEU data in Appendix A. Separate revenue data for the DMU was not available.

⁵ At the sites we visited, records indicated that management provided the required training.


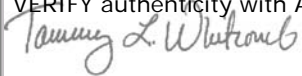
Evaluation of Management's Comments

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

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

We will report \$2,518,008 in revenue at risk in our *Semiannual Report to Congress*.

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.

E-Signed by Tammy Whitcomb 
VERIFY authenticity with ApproveIt


Tammy L. Whitcomb
Deputy Assistant Inspector General
for Revenue and Systems

Attachments

cc: Patrick R. Donahoe
Thomas G. Day
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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Business Mail Entry (BME) channel is the largest means of mail entry into the Postal Service. The BME channel covers about 55 percent of the revenue and over 73 percent of postal mailpiece volume. The Postal Service receives all permit mailings through this channel, as well as \$3 billion in meter revenue and a small amount of stamp revenue. Concerns about revenue protection have increased with the advent and growth of worksharing, which gives customers discounts for preparing and transporting their own mail.⁶

The BME channel consists of BMEUs and DMUs. A BMEU is the area of a postal plant where mailers present bulk, presorted, and permit mail for acceptance. The BMEU includes dedicated platform space, office space, and a staging area on the workroom floor. Mail is accepted at 3,748 BMEUs in Postal Service facilities, and at approximately 595 DMUs that are located in mailer or intermediary facilities but report volume and revenue through their associated BMEUs.

The total revenue and number of mailings at the sites we visited were:

| Table 1: Calendar Year 2007 Revenue (in \$000s) and Mailings by Location | | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| | ██████ | ██████ | ██████ | ██████ | ██████ | ██████ |
| | | | | | | |
| Revenue | \$663,674 | \$444,334 | \$775,691 | \$488,703 | \$691,929 | \$954,938 |
| | | | | | | |
| Mailings | 130,826 | 8,526 | 22,423 | 62,880 | 78,732 | 53,435 |
| | | | | | | |

Source: Web-Enabled Enterprise Information System (WebEIS)

The Postal Service provides worksharing discounts to mailers who prepare their business mail according to specific standards before they bring the mail to a BMEU for acceptance. Mailers receive worksharing discounts for barcoding, presorting, and dropshipping (transporting the mail closer to its destination). The lower rates compensate customers for work that would otherwise be performed by the Postal Service. Worksharing has grown to include 80.6 percent of all mail volume.⁷ Discount mailings (such as Standard Mail and bulk parcels) can enter the bulk mail network by being weighed and paid for at the mailer’s plant through a DMU or at a postal plant through a BMEU.

⁶ These figures represent 2006 data.

⁷ *Bound Printed Matter Workshare Discounts* (Report Number CRR-AR-08-005, dated May 9, 2008).

The verification process was established to ensure that the mailer prepares the mailing in accordance with standards for the rate at which the mailing is presented.⁸ Required presort verifications are summarized as follows.

- **Initial Verification** – All mailings, whether accepted at a non-MERLIN or MERLIN site, receive an initial verification, which includes review of postage statements, fund verification, mailpiece examination, and document review. When mailings do not pass the initial review, the customers are contacted and advised of errors and options for correcting the mailing. Mailings that pass are cleared for processing.
- **In-Depth Verification** – For non-MERLIN sites, in-depth verifications are required for mailings of 10,000 pieces or more; mailings that previously failed an in-depth verification; and mailings identified with presort errors during the initial verification process. The in-depth verification provides a graduated verification schedule for mailers who consistently provide well-prepared mailings. These mailers will be moved to a less frequent in-depth verification cycle. Samples are taken using a random generator list, and mailpieces are examined for proper sortation, labeling, quantity, mailpiece automation compliance, and barcode quality.

For MERLIN sites, in-depth verifications are required for all mailings of 10,000 pieces or more. If the sample does not pass verification, the mail is held and the customer is notified of his options to pay additional postage, appeal the decision and pay the additional postage, or rework the mailing. Trays and sacks are selected for sampling from a random generator list produced during each tour. The computerized list changes each time it is produced. The time and date must be printed on all copies produced to ensure that the most current list is being used.

Despite the addition of automated verification through MERLIN and other improvements to acceptance controls, according to the Government Accountability Office (GAO) risks of revenue leakage arise from:⁹

- Verifications not properly performed.
- Verifications not performed at the proper frequencies.
- Cost avoidance and additional postage not entered into PostalOne!
- Staffing – no qualified BMEU clerks available.
- Time constraints.
- BMEU clerks not receiving proper training.

⁸ Handbook DM-109, *Business Mail Acceptance*, Section 31, page 93, September 2006.

⁹ *Changes Made to Improve Acceptance Controls for Business Mail* (Report Number GAO/GGD-00-31, November 1999).

- Management oversight – management not ensuring that employees follow policies and procedures.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether mail sampling and verification policies and procedures are followed to ensure applicable postage is collected at BMEUs and associated DMUs.

To accomplish our objective, we judgmentally selected six BMEUs [REDACTED]. We reviewed guidance for business mail acceptance and verification procedures and interviewed key personnel at the selected BMEUs and DMUs to gain an understanding of existing processes and management controls. We reviewed and analyzed December 2007 business mail acceptance data and reports from the Accounting Data Mart (ADM), MERLIN Maintenance and Operations Database (MMOD), PostalOne!, and WebEIS. In addition, we judgmentally selected and reviewed a sample of large mailings (10,000 pieces or more) at each selected location. Finally, we observed mail acceptance, verification, and clearance processes and reviewed postage statements and other supporting documentation.

We conducted this performance audit from October 2007 through July 2008 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 the evidence obtained provides a reasonable basis for our findings and conclusions.

We assessed the reliability of computer-generated data by verifying computer records to source documents. We discussed our observations and conclusions with management officials on May 7, 2008, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

| Report Title | Report Number | Final Report Date | Monetary Impact | Report Results |
|---|---------------|-------------------|-----------------|---|
| <i>Mail Evaluation, Readability and Lookup INstrument Utilization at the Business Mail Entry Unit in Sacramento, California</i> | NO-AR-05-008 | March 29, 2005 | None | Although MERLIN utilization had increased at the Sacramento BMEU, it did not meet the Postal Service's target of 100 percent verification for large mailings. Since October 2003, the Sacramento BMEU had verified, on average, 27 percent of its large MERLIN-compatible mailings. Average utilization rates at DMUs ranged from 7 percent to 88 percent. As a result, the Postal Service may not have identified and collected appropriate postage due from business mailers. |
| <i>Fiscal Year 2007 Financial Installation Audits – Business Mail Entry Units</i> | FF-AR-08-131 | March 19, 2008 | None | Although internal controls were generally in place and effective, a significant deficiency existed with the acceptance of mail at BMEUs. We reported similar mail acceptance and other compliance issues in several consecutive prior fiscal year reports, and management concurred and agreed to reemphasize policy. However, these conditions had not improved and, in many instances, had worsened. |

MANAGEMENT ACTIONS

At the time of our review, the Postal Service was testing PBV. In PBV, mailers' verification profiles are based on their performance at a specific site. PBV will replace the existing one pass/two pass (manual) and MERLIN verification selection process in PostalOne!. PBV uses elements such as the mailer's verification history, mailing size, cost of verification, and cost of errors to determine the verifications that should be performed for a mailing. In addition, management is taking action to ensure that personnel receive the required training and to begin rotating staff between the [REDACTED] BMEU and DMU.

APPENDIX B: DETAILED ANALYSIS

In-Depth Verifications for Large Mailings Were Not Always Performed

In December 2007,¹⁰ in-depth verifications were not performed for all mailings of 10,000 or more pieces¹¹ at the six BMEUs and associated DMUs we reviewed. (See Table 2.) Specifically, 199 of the 360 mailings received an initial verification, but did not receive a MERLIN or manual in-depth verification as required.

| Table 2: Mailings with No In-Depth Verifications | | |
|---|--|--------------------------------------|
| BMEU Location | Mailings with No In-Depth Verifications | Representing Revenue Totaling |
| ██████ | 32 of 60 | \$ 249,995 |
| ██████ | 60 of 60 ¹² | 7,735,841 |
| ██████ | 20 of 60 | 249,551 |
| ██████ | 28 of 60 | 399,184 |
| ██████ | 25 of 60 | 696,240 |
| ██████ | 34 of 60 | 420,528 |
| Totals | 199 of 360 | \$ 9,751,340 |

Handbook DM-109 states that staffing must be sufficient to ensure continued online entries in PostalOne! even during daily peak acceptance times. Also, BME managers are responsible for annually ensuring the adequacy of BMEU staffing and scheduling. Further, all mailings of 10,000 pieces or more at a MERLIN location must receive a MERLIN (in-depth) verification. At non-MERLIN locations, all presorted mailings of 10,000 pieces or more are placed on a graduated verification cycle, known as a skip interval, to ensure compliance with mail preparation standards. If a mailing is not MERLIN-compatible, or if the MERLIN machine is not operational, a manual verification should be performed. Mailings of less than 10,000 pieces will not be scheduled for an in-depth verification unless problems are identified during the initial verification process.

¹⁰ December was not unusually busy at the BMEUs we visited. Ranked by CY 2007 revenue, December was the 7th busiest month in ██████; 9th at ██████; 6th at ██████ and ██████; 5th at ██████; and 3rd at ██████.

¹¹ Handbook DM-109 requires an in-depth verification for large mailings (more than 10,000 pieces) and mailings identified with presort errors during the initial verification process.

¹² To review the mailings of 10,000 or more pieces, we used BMEU and DMU records held at the ██████ BMEU; we did not use DMU records stored at the ██████ Post Office.

In-depth verifications were not always performed for several reasons.

- At one BMEU, the clerk did not adhere to the guidance because he felt he was not adequately trained to perform in-depth verifications. However, we verified that he had received the required training.
- At locations with a MERLIN, manual verifications were not performed as required when mailings were not MERLIN-compatible or the MERLIN was not available for use.
- Conflicting priorities at the BMEU did not allow personnel to perform manual or MERLIN verifications as well as staff the acceptance counter during high-volume mailing periods. The same personnel performed both acceptance and verification procedures at the BMEU; therefore, during daily peak periods the staff skipped some verifications in order to adequately perform acceptance procedures on mailings received.
- Documentation was not maintained on skip interval¹³ mailings; if a verification was not required, the clerks did not annotate the skip on the postage statement or in PostalOne!.

Because adequate verifications were not performed and the required documentation was not completed, the Postal Service was at risk of not collecting all applicable postage. Table 3 shows the maximum potential revenue at risk¹⁴ for the 199 mailings for the postage statements and mailings we reviewed.

| Table 3: Revenue at Risk | |
|---------------------------------|--------------------|
| ██████████ | \$ 177,983 |
| ██████████ | 1,290,223 |
| ██████████ | 79,662 |
| ██████████ | \$90,445 |
| ██████████ | 161,811 |
| ██████████ | 104,860 |
| Total | \$1,904,983 |

¹³ So that the Postal Service can fully realize savings from reduced postal handling costs, all presort mailings of 10,000 pieces or more at non-MERLIN locations are placed on a graduated verification cycle known as a skip interval.

¹⁴ We determined revenue at risk to be the difference between the recalculated full rate on each mailing if no discounts had been applied and the rate at which the mail was entered.

Backup Verification Coverage Was Not Established at One Detached Mail Unit

Because the BMEU clerk assigned to a DMU was on leave or was not scheduled to work for 15 non-consecutive days in December 2007, the DMU had no personnel available to conduct MERLIN verifications. Handbook DM-109 states that BME managers are responsible for annually ensuring the adequacy of DMU staffing and scheduling. Further, supervisors are responsible for ensuring that all scheduled DMUs are staffed daily. Finally, one condition of establishing a DMU is that the manager or postmaster must agree and be able to adequately staff the DMU to ensure revenue is protected.

The DMU had no verification coverage on those days because no procedure existed for assigning backup personnel to the DMU to perform verifications when the primary clerk was not available.

Because the DMUs were not adequately staffed with personnel who could perform verifications, the Postal Service was at risk of not collecting all applicable postage. For the 29 postage statements¹⁵ and mailings reviewed for the period no clerk was present to verify the mailings, the maximum potential revenue at risk¹⁶ was \$613,025.

¹⁵ These DMU mailings were identified separately from our initial sample of 60 and not included in the first finding, "In-Depth Verifications for Large Mailings Were Not Always Performed."

¹⁶ We determined revenue at risk to be the difference between the recalculated full rate on each of the mailings if no discounts had been applied and the rate at which the mail was entered.

APPENDIX C: MANAGEMENT'S COMMENTS

PRITHA MEHRA
VICE PRESIDENT
BUSINESS MAIL ENTRY & PAYMENT TECHNOLOGIES



July 24, 2008

LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Business Mail Entry Unit Sampling and Verification
Procedures (Report Number MS-AR-08-DRAFT)

Thank you for the opportunity to respond to the findings in your draft Business Mail Entry Unit Sampling and Verification Procedures (Report Number MS-AR-08-DRAFT). Management agrees with the findings and non-monetary impact outlined in this report and accepts your recommendations. Management's responses to each recommendation are included below.

Recommendation 1:

Assess the placement and usage of Mailing Evaluation Readability and Lookup Instrument machines at all Business Mail Entry Units to determine efficiency, and relocate the machines as needed to maximize usage.

Response

Management agrees with this recommendation as it is our intention to reallocate MERLINS after Performance Based Verification (PBV) features of the *PostalOne!* system are deployed next fiscal year. We intend to redeploy MERLIN machines as needed based on the verification needs determined by the PBV feature. The currently planned timeline for national deployment of PBV is to be completed by March 31, 2009. The Manager, Business Mail Acceptance will be monitoring the progress of effective redeployment of MERLIN system and will further review Merlin locations by March 2010..

Recommendation 2:

Request *PostalOne!* Software modifications to:

- a) Create a field requiring Business Mail Entry Unit clerks to input verification results.
- b) Generate a report to list mailings of more than 10,000 pieces that did not receive a required verification.
- c) Create a field in the system annotating whether the mailing is due to receive verification under a skip interval, and allow the data to be permanently attached to the mailing information.
- d) Create a field to direct clerks to annotate why required verification.

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Response

Management agrees with this recommendation and the modifications requested to *PostalOne!*. The first recommended function has been in the *PostalOne!* system since it was deployed. The other requested functionalities have been incorporated within the PBV features of the *PostalOne!* system and PBV pilot sites can currently manage their units more efficiently. All other acceptance units on the *PostalOne!* system will be able to use these functions once deployment is completed in Fiscal Year 2009.

Recommendation 3:

Direct District Managers to review *PostalOne!* reports to determine the validity of reasons for any mailing of more than 10,000 pieces not receiving a required verification.

Response

Management agrees with this recommendation. In Fiscal Year 2009 we will be deploying PBV and the current policy of performing Merlin verification on all mailings over 10,000 pieces will no longer be in effect. We are committed to providing support wherever possible and finding solutions that will enable the BMEUs and DMUs to improve business processes that ensure the protection of postal revenues. Training will be provided and we will ensure that the appropriate management staff to include the Business Mail Entry Managers and District Managers understand the verification reports available to them in the PBV model and will enable them to more efficiently and effectively manage their offices. Training will begin in October, 2008 to all nine Areas and should be completed by March 2009. The Manager, Business Mail Acceptance will be monitoring the progress of unit compliance with managing verification compliance.

Recommendation 4:

Direct Business Mail Entry Unit managers to analyze staffing requirements at detached mail units and develop a procedure for assigning backup personnel as needed to perform the required verifications. (Backup Verification Coverage was not established at one DMU – managed by the [REDACTED] BMEU).

Response

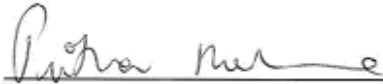
Management agrees with the recommendation. The performance-based verification model will address this issue as verifications are prompted based upon a risk-based approach. Each acceptance unit will be assigned an individual cost center ID. The system will enable tracking of verification activities by each individual detached mail unit and report on units that are not in compliance. We are also evaluating a staffing tool to be deployed after the performance-based verification and intelligent mail programs are deployed.

The Manager, Business Mail Acceptance met with the District Manager, [REDACTED] and discussed the findings mentioned in this audit. They have taken the appropriate action regarding coverage at their DMU and have added an additional Bulk Mail Technician and stated that all three bulk mail technician positions will be rotated on a regular basis between the [REDACTED] BMEU and the DMU located at [REDACTED].

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.

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If we can be of any further assistance or clarify this response, please do not hesitate to contact Bob Galaher, Manager, Business Mail Acceptance at [REDACTED]


Pritha Mehra

cc: Kathy Banks, Manager CARM