



September 28, 2006

BRENDA L. BAUGH
MANAGER, DALLAS BULK MAIL CENTER


SUBJECT: Audit Report– Mail Processing Internal Controls at the Dallas Bulk Mail Center (Report Number NO-AR-06-009)

This report presents the results of our audit of the Dallas, Texas, Bulk Mail Center (Dallas BMC) located in the Southwest Area (Project Number 06YG006NO001). Our objective was to assess internal controls over mail processing at the Dallas BMC. The U.S. Postal Service Headquarters requested the review, and we conducted it in cooperation with the Southwest Area.

Generally, internal controls over mail processing at the Dallas BMC were in place and effective. We found that the Dallas BMC had internal controls in place for recording van reloads; reporting bundle breakage and other mailing deficiencies; securing information maintained on computer workstations; recycling materials; and conducting semiannual safety and health inspections. However, the Dallas BMC could strengthen controls over mail reporting, timekeeping, color coding, and preventive maintenance. Weak internal controls in these areas may lead to excessive costs, delayed mail, and inaccurate management decisions.

We made six recommendations in the report. Management agreed with our findings and recommendations and has initiatives in progress, completed, or planned addressing the issues in this report. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Robert J. Batta, Director, Network Operations - Processing, or me at (703) 248-2300.

E-Signed by Colleen McAntee 
VERIFY authenticity with Approve!
Colleen McAntee

Colleen A. McAntee
Deputy Assistant Inspector General
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EXECUTIVE SUMMARY

Introduction

The U.S. Postal Service Office of Inspector General (OIG) assessed internal controls over mail processing at the Dallas Bulk Mail Center (BMC), located in the Southwest Area. U.S. Postal Service Headquarters requested the review, which the OIG conducted in cooperation with the Southwest Area.

Results in Brief

Generally, internal controls over mail processing at the Dallas BMC were in place and effective. The Dallas BMC had internal controls in place for recording van reloads, reporting bundle breakage and other mailing deficiencies, securing information maintained on computer workstations, recycling materials, and conducting semiannual safety and health inspections. However, the Dallas BMC could strengthen controls over mail reporting, timekeeping, color coding, and preventive maintenance. During the audit, BMC management developed an action plan to address these internal control deficiencies.

Handbook F-23, *Accounting Policy Reference*, dated August 2004, Section 2-9, states the Postal Service is responsible for establishing and maintaining a system of management and accounting controls. The Postal Service also has established criteria for specific internal controls in its mail processing policies.

These control weaknesses primarily occurred because of insufficient and inconsistent supervision due to high management turnover. These deficiencies may lead to excessive costs, delayed mail, and inaccurate management decisions.

Summary of Recommendations

We recommended the Manager, Dallas Bulk Mail Center: ensure the web Mail Condition Reporting System shows the correct amount of delayed mail; control employee time cards; record employees' time worked in the proper operation numbers; and ensure that employees' base operations numbers are correctly captured. We also recommended the manager: train employees and supervisors in time recording procedures; color-code all Standard Mail®; develop and follow a preventive maintenance schedule for mail processing equipment; and conduct loose mail searches.

**Summary of
Management's
Comments**

Management agreed with our findings and recommendations. Management began corrective actions during the audit to address mail condition reporting, security, timekeeping, color-coding, maintenance and loose mail. They also plan to implement a follow-up program to ensure correction of the identified internal control deficiencies. Management's comments, in their entirety, are included in Appendix B.

**Overall Evaluation of
Management's
Comments**

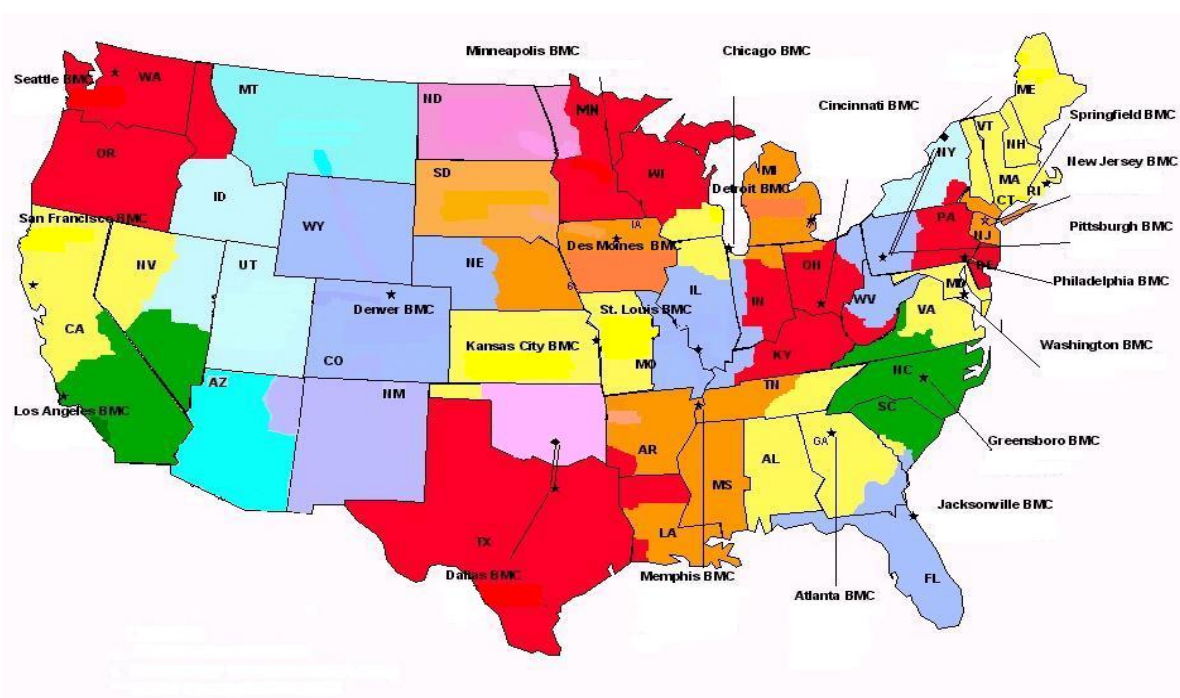
Management's comments are responsive to our recommendations. Management's actions, taken or planned, should correct the issues identified in the report.

INTRODUCTION

Background

Bulk Mail Centers (BMC) are highly mechanized mail processing plants that are part of the National Bulk Mail System. These facilities distribute Parcel Post[®],¹ Standard Mail[®],² and Periodicals.³ The U.S. Postal Service developed a bulk mail network in the 1970s to maintain its share of the parcel market and built 21 plants. (See Illustration 1 below.)

Illustration 1: Bulk Mail Center Locations



In fiscal year (FY) 2005, the Dallas BMC ranked as the second largest facility in the BMC network in mail volume and workhours. In FY 2005, the Dallas BMC processed over 219 million total handling pieces and used approximately 1.9 million workhours. The Dallas BMC is located in the Southwest Area and serves numerous Zip Codes in five states. (See Appendix A.)

¹ Parcel Post is mail that does not meet the mail processing category of letter-size mail or flat-size mail. It is usually enclosed in a mailing container such as a carton.

² Standard Mail is not mailed as First-Class Mail[®] or entered as Periodicals.

³ The Periodicals class consists of magazines, newspapers, or other publications formed of printed sheets that are issued at least four times a year from a known office of publication.

The Government Accountability Office (GAO) noted in 1999 that effective internal control systems help government managers achieve desired results through effective stewardship of public resources.⁴ Recent years have seen heightened concern and focus on internal controls because of a series of high-profile business scandals and failures where investors, company personnel, and other stakeholders suffered tremendous losses. In the aftermath were calls for enhanced corporate governance and risk management, with new laws, regulations, and listing standards, such as the 2002 Sarbanes-Oxley Act.⁵

Internal controls can help an entity achieve its performance and profitability targets and prevent loss of resources. Controls can help ensure reliable financial reporting and ensure that the enterprise complies with laws and regulations, avoiding damage to its reputation and other consequences. Strong internal controls can help an entity achieve its goals and avoid pitfalls and surprises along the way.

The Postal Service has long recognized the importance of effective internal controls and has developed controls to accomplish its goals and objectives. Postal Service internal control guidelines are aligned with the Internal Control-Integrated Framework designed by the COSO. The COSO framework has five components, which are the control environment (management's attitude and control consciousness); communication; risk management and assessment; control activities; and monitoring. The Postal Service addresses each of these factors in its internal control guidelines.

⁴ GAO, *Standards for Internal Control in the Federal Government*, November 1999.

⁵ *Enterprise Risk Management — Integrated Framework Executive Summary*, September 2004, Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

http://www.coso.org/publications/executive_summary_integrated_framework.htm

**Objective, Scope,
and Methodology**

The audit objective was to assess internal controls over mail processing at the Dallas BMC. To assess these controls, we observed mail processing operations; analyzed mail processing and timekeeping reports; conducted a statistical sampling of employee clock rings; reviewed postal instructions, policies, manuals, reports, and procedures; and interviewed Postal Service officials.

We relied on Postal Service operational systems, including the web Mail Condition Reporting System (webMCRS), the Vehicle Tracking, Analysis and Performance System (VTAPS), the Timekeeping and Attendance Collection System (TACS), the Electronic Mail Improvement Reporting System, the Sorter Induction Accuracy Test System, and the web Management Operating Data System (webMODS). We did not test the validity of controls over these systems. However, we checked the accuracy of data by confirming our analysis and results with Postal Service managers.

We conducted this audit from April through September 2006 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments where appropriate.

Prior Audit Coverage

The OIG has not conducted an audit of internal controls over mail processing at the Dallas BMC. However, the Postal Service conducted three prior internal control reviews. These reviews identified internal control deficiencies in mail reporting, color coding, reload vans, loose mail searches, preventive maintenance, and timekeeping. The three prior reviews are as follows.

- *Headquarters BMC Operations Review – Dallas Bulk Mail Center* (August 16, 2004) found deficiencies in staging mail, processing reloaded vans, timekeeping, color-coding, searching loose mail, operating plans, and reporting mail volume. This report also identified efficiency improvements, such as increased use of equipment and improved staff scheduling.

- *Headquarters BMC Operation Review – Re-Audit of Dallas Bulk Mail Center* (November 3, 2004) concluded that the Postal Service had made little to no progress on the major findings in the prior report (noted above).
- *Postal Inspection Service Fiscal Year 2004 Observations of Mail Conditions (OMC)* (week of October 6, 2003) found that delayed mail was under-reported. The report also concluded that VTAPS data was corrupt, which led to inaccurate reporting on the status of reloaded vans.

AUDIT RESULTS

Assessment of Mail Processing Internal Controls at the Dallas Bulk Mail Center

In general, internal controls over mail processing at the Dallas BMC were in place and effective. The Dallas BMC had internal controls in place for recording van reloads, reporting bundle breakage and other mailing deficiencies, securing information maintained on computer workstations, recycling materials, and conducting semiannual safety and health inspections. However, several mail processing internal controls needed improvement. Specifically, we found:

- The webMCRS did not accurately reflect the amount and age of delayed mail on-hand.
- Employee time cards were not properly secured, and employees were not always clocked into the proper operations.
- All mail was not correctly color-coded and labeled with the time and date received.
- A preventive maintenance schedule for mail processing equipment did not exist, and loose mail searches were not conducted as required.

Handbook F-23, *Accounting Policy Reference*, dated August 2004, Section 2-9, states the Postal Service is responsible for establishing and maintaining a system of management and accounting controls. The Postal Service also has established criteria on specific internal controls in its mail processing policies.

These mail processing internal control weaknesses primarily resulted from insufficient and inconsistent supervision due to high management turnover.

- A total of 27 out of 63 mail processing management positions had been vacated from May 2005 to July 2006 – a 43 percent turnover. Although the majority of these positions have been filled, the Dallas BMC has relatively new managers that are unfamiliar with operations and staff.
- The BMC manager started in this new position in May 2005.

These internal control weaknesses may lead to excessive costs, delayed mail, and incorrect management decisions.

Delayed Mail
Reporting

We found that the amount of delayed mail on-hand was not accurately reported in the webMCRS,⁶ and the date of the oldest mail was often incorrect.

During June 2006, we analyzed 15 days of data⁷ and found that delayed mail was underreported by more than 243,000 mail items, including pieces, bundles, and trays. During this period, the date of the oldest mail was changed on 1,510 mail containers by as much as 6 days from the original count recorded on the Delayed On-Hand Mail Report. We corroborated this data by our observations. Illustrations 2 and 3 show delayed mail that was not reported in the webMCRS but was still on-hand during the next processing day.



Illustration 2: Delayed mail sacks on-hand since June 25, 2006, that had not been reported by June 28, 2006, in webMCRS.

⁶ The webMCRS is a repository for information on the facility's mail conditions. These conditions are related to inventories of delayed mail and on-hand mail. A virtual daily snapshot of mail conditions at facilities throughout the nation is taken at the end of the processing day. Mail is considered delayed if it is not processed in time to meet its critical transportation dispatch. The dates of the oldest delayed mail item must also be reported. This information is entered in the webMCRS and is available to Postal Service officials at all levels for analysis, forecasting, and planning.

⁷ Data were available from 15 days of Delayed On-Hand Reports.



Illustration 3: Delayed mail parcels on-hand since June 26, 2006, that had not been reported by June 28, 2006 in webMCRS.

Postal Service policy⁸ requires that mail not meeting critical transportation dispatch time must be reported as delayed in the webMCRS. Failure to report all required volumes may constitute falsification of official records.⁹ Delayed mail was not accurately reported because of insufficient training. Further, this inaccurate reporting was not detected due to insufficient oversight. Not reporting delayed mail means that accurate delayed mail volumes and dates of oldest mail were not available for analysis, forecasting, or planning. During our audit, Postal Service began taking corrective action in this area.

Timekeeping

We found that electronic time card badges were not secured and properly controlled. (See Illustration 4.) Also, employees' time worked was not always recorded in the correct mail processing operation number.

Handbook F-21, *Time and Attendance*, Section 133.63, dated August 2005, states that supervisors are responsible for controlling employee access to time cards. This weakness occurred because securing badges was not a priority. As a result, the Postal Service may incur additional payroll costs as

⁸ *webMCRS Training/User Guide*, dated March 17, 2005.

⁹ This matter has been referred to the Office of Investigations.

a result of employees clocking in earlier or out later than scheduled times, clocking in other employees, or taking lunch outside allotted times.

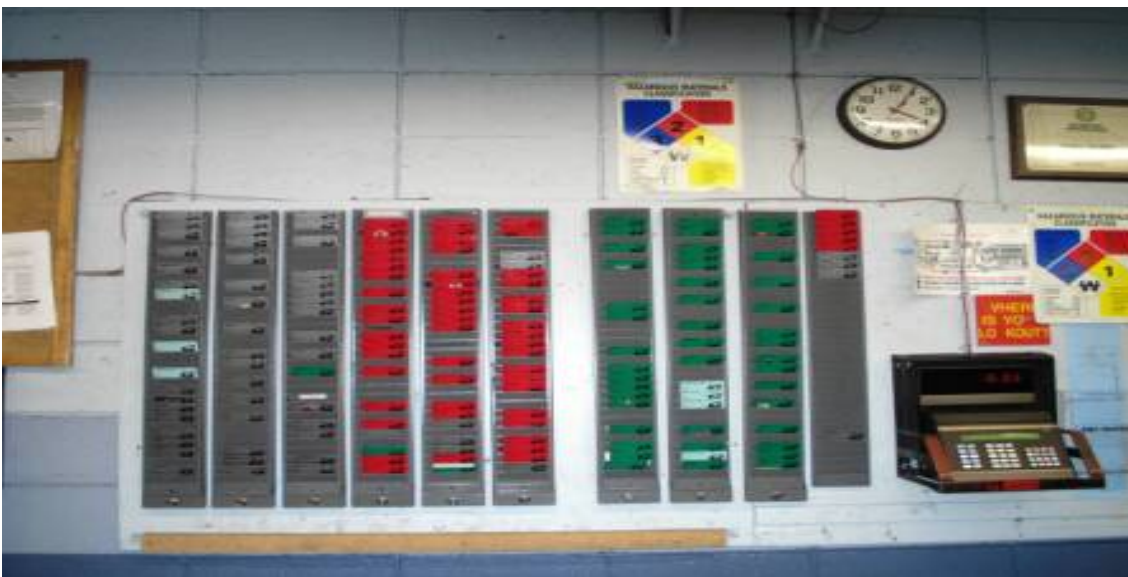


Illustration 4: Employee time cards from all three tours were unsecured and not under management control in the Maintenance area badge rack on April 29, 2006.

Clock Rings

Our review of employee clock rings¹⁰ projected that about 22 percent¹¹ of employees were working in an operation that did not match the webMODS operation number. Handbook F-21, Section 113.11, dated August 2005, states that the installation head is responsible for accurate entries on time cards. The Postal Service did not provide the necessary oversight to ensure that base operation numbers for every employee were correct in TACS, operation number buttons on electronic badge readers were labeled correctly to match the badge reader listing, and employees and supervisors were properly trained in clocking into the correct operation number.

As a result of these control deficiencies, the Postal Service did not have accurate information to make staffing and operational decisions, which may result in increased payroll costs and less efficient operations.

¹⁰ A clock ring is the time recorded by the electronic badge reader based on employees swiping their time cards or badges.

¹¹ This projection was based on a sample of 385 employees, of which we observed 185 employees. Of the 185 employees observed, 41 were not in the correct operation number. Based on a 95 percent confidence interval, the error rate is 22 percent.

Color-Coding

We found that mail arriving at the facility was not always properly¹² color-coded. We reviewed the June 28 through 30, 2006, Delayed On-Hand Mail Report, which showed that 241 out of 884 containers (27 percent) were not color-coded properly. Our observations corroborated this condition. Illustrations 5 and 6 show improperly color-coded mail.



Illustration 5: June 29, 2006: container not properly color-coded. Instead of the standard color-code tag, a piece of blue paper was used to denote that day's color, but no arrival date or time information was recorded.

¹² The Postal Service uses a system of color-coding to facilitate the timely processing, dispatch, and delivery of Standard Mail to meet established service standards. Color-coding sequences the mail to ensure first-in, first-out processing. Mail is properly color-coded when it bears a color-code tag showing a date and time the mail arrived at the facility.



Illustration 6: June 29, 2006: several pallets of mail not color-coded. The blue paper on this mailing is a mailer-applied routing tag, and not a color-code tag.

The *Postal Operations Manual 9*, dated July 2002, requires color-coding of all mail based on the facility's critical entry time. Local policy¹³ further requires that mail arriving before the facility's critical entry time receive the color code for that day, while mail received after this time receives the following day's color code. In addition, best practices dictate that the color tag must show the time and date of arrival.

Mail was not always properly color-coded because of changes in staff responsibilities for color coding and resistance from some employees to these changes. Insufficient supervisory oversight also contributed to this condition. Consequently, the Postal Service was not ensuring that mail was processed in a timely manner.

¹³ Standard Operating Procedure, Color Code Mail Processing-Dallas BMC, dated May 1, 2005.

Preventive
Maintenance

The Dallas BMC did not have a preventive maintenance schedule indicating the time each day that preventive maintenance was scheduled to be performed on each piece of mail processing equipment. Illustration 7 shows parcel sorter container loaders that were in poor working condition because of inadequate preventive maintenance.

Postal Service Management Instruction AS-530-90-5, *Preventive Maintenance for Mail Processing Equipment*, Section III, Responsibilities, dated April 12, 1990, states, "The installation head must ensure that maintenance windows are established and strictly followed." This condition occurred because the Postal Service did not provide the necessary oversight to ensure that the Dallas BMC developed and followed a preventive maintenance schedule.

This weakness may result in costly equipment breakdowns, high reject rates, low throughputs on mail processing machines, and the need to replace equipment sooner than expected.



Illustration 7: Parcel Sorter Container Loaders were in poor working condition, resulting in many that could not be placed in a tilted position. The tilted position helps prevent damage to parcels as they are sorted into these containers from mail chutes.

Loose Mail Searches We found loose mail that was not cleared for over 24 hours, indicating mail searches were not being conducted as required. Illustration 8 shows loose mail that had not been retrieved after a 24-hour period. Highly mechanized mail processing facilities such as BMCs use overhead belts to transport mail. Mail can fall off these belts and become loose and subsequently deposited on platforms or other surfaces throughout the facility. This mail should be regularly collected and returned to mail processing operations.

Management Instruction, AS-530-90-5, Section V, states that mail searches are part of the daily preventive maintenance routine. These searches were not being performed because the Postal Service was not providing the necessary oversight. Consequently, loose mail may not be processed in a timely manner and may not meet service standards.

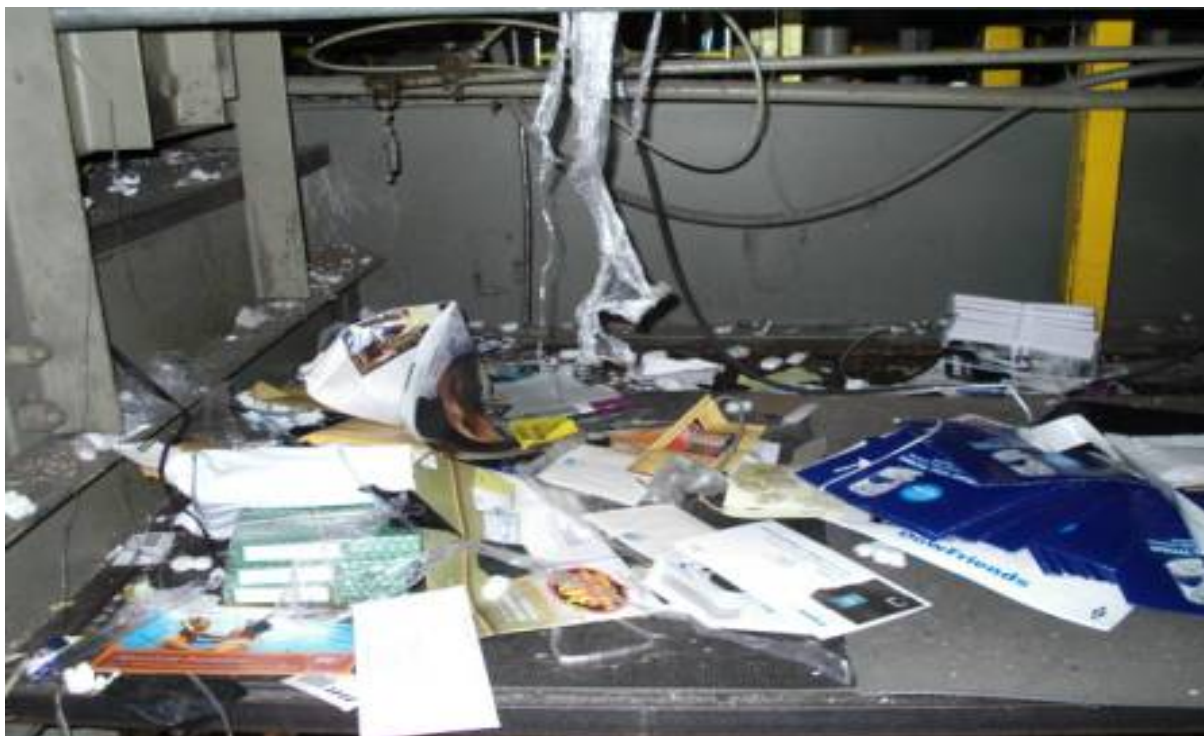


Illustration 8: Loose mail found on April 29, 2006, that had not been retrieved within 24 hours, indicating loose mail searches were not conducted as required.

Postal Service Actions	<p>During the audit, the Postal Service agreed with our findings and began developing an action plan that addresses the Dallas BMC's internal control weaknesses over mail processing. Specifically, the Dallas BMC:</p> <ul style="list-style-type: none">• Revised their standard operating procedure for reporting delayed mail.• Began daily verifications to ensure employee badges are secured and under management control.• Reissued the policy on color coding and assigned responsibility to specific managers.
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Recommendations	<p>We recommend the Manager, Dallas Bulk Mail Center:</p> <ol style="list-style-type: none">1. Ensure the web Mail Condition Reporting System accurately reflects the amount of delayed mail on-hand.2. Secure and control employee time cards.3. Ensure employees' time worked is recorded in the proper operation numbers by correcting button labels on the electronic badge reader; base operations numbers are correct for all employees; and employees and supervisors are trained in time recording procedures.4. Ensure Standard Mail is properly color-coded and labeled with the time and date received.5. Develop and follow a preventive maintenance schedule for mail processing equipment.6. Conduct loose mail searches as required.
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**Management's
Comments**

Management agreed with our findings and recommendations. Management began corrective actions during the audit to address mail condition reporting, security, timekeeping, color-coding, maintenance and loose mail. They also plan to implement a follow-up program to ensure correction of the identified internal control deficiencies.

**Evaluation of
Management's
Comments**

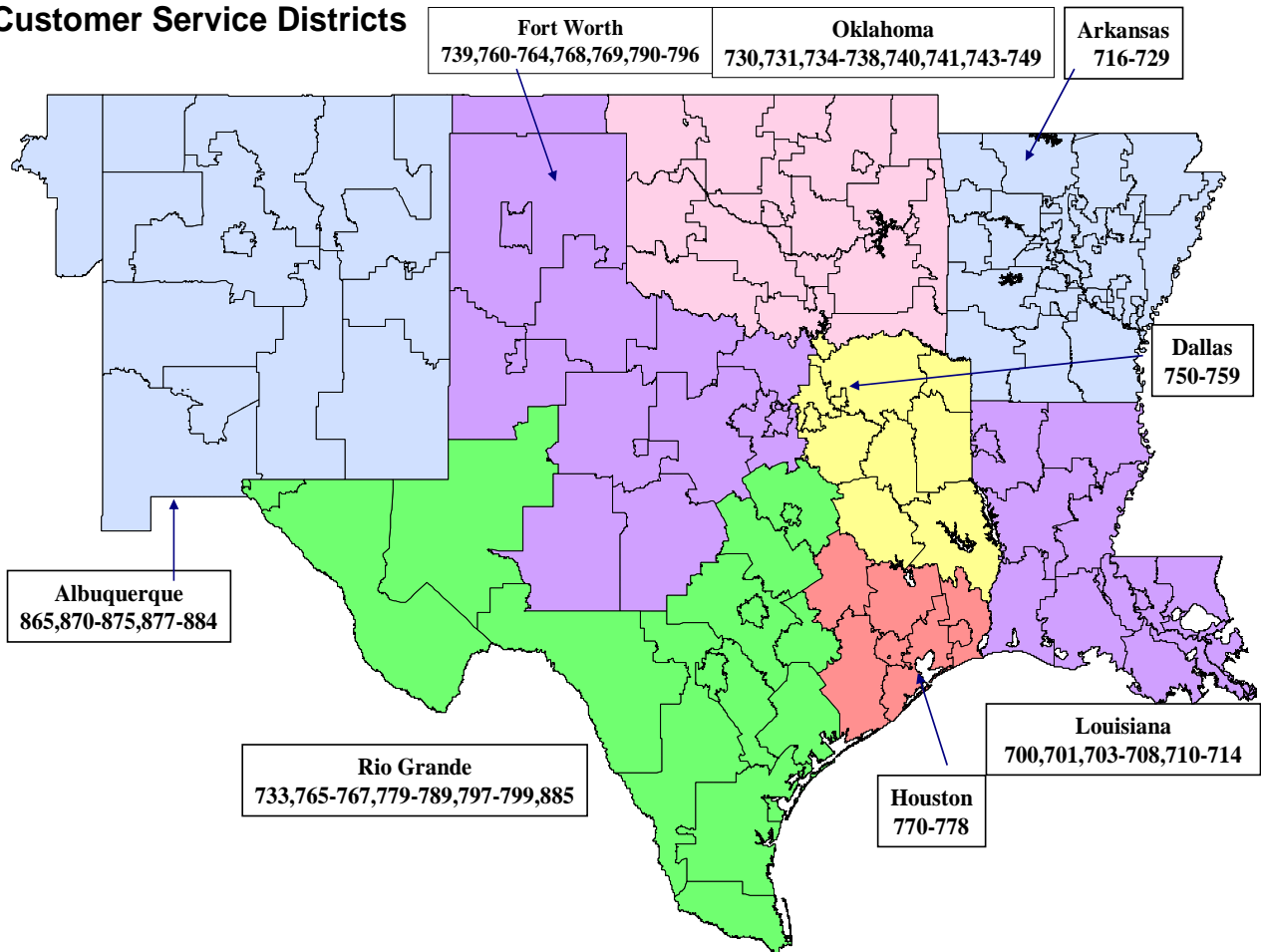
Management's comments are responsive to our recommendations. Management's actions, taken or planned, should correct the issues identified in the report.

APPENDIX A

SOUTHWEST CUSTOMER SERVICE DISTRICTS BY THREE-DIGIT ZIP CODE AREA

Southwest Area

Customer Service Districts



Source: U.S. Postal Service Blue Pages

APPENDIX B MANAGEMENT'S COMMENTS

SOUTHWEST AREA OFFICE



September 25, 2006

To: KIM H. STROUD
DIRECTOR AUDIT REPORTING

SUBJECT: DALLAS BULK MAIL CENTER - OFFICE OF THE INSPECTOR GENERAL
REVIEW

The Southwest Area appreciates the recent review of operations at the Dallas Bulk Mail Center, conducted by the Office of the Inspector General, Project Number 06YG006NO001. The attachment lists the observations, and our response, including the actions taken.

The Bulk Mail Center will ensure that processes now in place, in response to the review, will remain in place. The Southwest Area will perform quarterly reviews to ensure that the items identified in the report have been corrected, and that new processes are being followed. If additional information is needed, please contact me at (214)819-8600.

A handwritten signature in black ink, appearing to read "William C. Rucker".

William C. Rucker
Manager, Operations Support
Southwest Area Office

Attachment

cc: Ellis Burgoyne, Vice President, SWA
Brenda Baugh, Plant Manager BMC
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DALLAS BMC – OFFICE OF THE INSPECTOR GENERAL PROJECT NUMBER 06YG006N0001

Listed below are the recommendations of Office of the Inspector General from the review performed April through September, 2006 and the actions taken by the Dallas Bulk Mail Center and the Southwest Area Office to address the recommendations.

- **The webMCRS did not accurately reflect the amount and age of delayed mail on-hand.**

The revised Standard Operating Procedures (SOP) was issued and covered with Data Technicians and Relief's on August 31, 2006 by Southwest Area personnel. Accountability and oversight has now been given to the data technician, and on-going follow up procedures have been implemented. A daily report has been implemented that provide specifics, that has accountability assigned to the Managers, Distribution Operations, Supervisors, Data Technician and Manager, In-Plant Support. In reference to non-maintaining of actual count sheets, documents will now be maintained (1) one year and scanned to disk for reference. Supporting documentation (hardcopy) is maintained for (1) one year and will be scanned to disk for reference. Southwest Area In-Plant Support personnel facilitated training August 31, 2006 for employees involved with the DMCR process, and Dallas BMC developed action plans. Weekly status reports are now being sent to the Southwest Area Office. Southwest Area In-Plant Support reviews of the DMCR processes have been conducted on August 11, 18, 19, 24, 30, and September 6, 8, 10 and 19.

- **Employee timecards were not properly secured and employees were not clocking into the proper operations.**

All badge racks have been repaired or replaced. Operations, vehicle and maintenance are verifying and controlling employee's access to badges. Operations numbers were validated on all EBR's. Service talks were conducted plant wide to reiterate the badge control regulations. Bi-weekly verification of base operations is being conducted by BMC In-Plant Support personnel. Southwest Area In-Plant Support reviews of the badge rack processes have been conducted on August 11, 18, 19, 24, 30, and September 6, 8, 10 and 19.

- **All mail was not correctly color coded and labeled with the time and date received.**

Color code training was provided by Southwest Area In-Plant Support staff, with train-the-trainers on-site certified on August 24, 2006. Accountability was then established for MDO's and Supervisors. Tour turnover sheets have also been implemented, and the color code policy has been reissued. Compliance is tracked by BMC In-Plant Support. Southwest Area In-Plant Support reviews of the color code processes have been conducted on August 11, 18, 19, 24, 30, and September 6, 8, 10 and 19.

- **Preventive maintenance schedules for mail processing equipment did not exist**

Preventive maintenance schedules for mail processing equipment were in place, but were not readily visible during the review. Based on the recommendation from team, a single document was created to detail all preventive maintenance (PM's) windows, routes and times. PM schedules are now posted on equipment, and books are maintained in the Maintenance office, the Manager Distribution Operations area and in the Central Control Room. Container loaders are repaired when deficiencies are reported. Training was provided to operations and the extra focus from maintenance has improved the efficiency of the operation container loaders. The Southwest Area Maintenance Support staff is also conducting on-site maintenance reviews.

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- **Loose mail searches were not conducted as required.**

Weekly reports are now submitted to Southeast Area Office for compliance with the mail search requirement. Mail searches are conducted daily with a weekly physical verification conducted by maintenance management. Also, Southwest Area reviews of the loose mail search processes have been conducted on August 11, 18, 19, 24, 30, and September 6, 8, 10 and 19.