



September 17, 2009

MEGAN J. BRENNAN
VICE PRESIDENT, EASTERN AREA OPERATIONS

SUBJECT: Audit Report – Fiscal Year 2009 Kentuckiana District
Business Mail Entry Unit Financial Risk Audit
(Report Number FF-AR-09-221)

This report presents the results of our financial risk audit of the Kentuckiana District (Project Number 09BD016FF000). We conducted this self-initiated audit at five judgmentally selected business mail entry units (BMEU) to evaluate financial risk as identified by U.S. Postal Service Office of Inspector General (OIG) Performance and Results Information System (PARIS) models. See [Appendix A](#) for additional information about this audit.

Conclusion

District management did not effectively implement all required internal controls in the Kentuckiana District. Specifically, district management did not effectively monitor all cancelled and inactive advance deposit accounts because the scorecard they used for monitoring did not have accurate and complete data. Further, district management did not effectively manage the accurate and timely entry of postage statement data for individual units because the district, as a whole, was within the target error rate goal of 2 percent. Lastly, district management did not effectively monitor or manage the review of PostalOne! control overrides because they were not aware of requirements. The Postal Service has an increased risk that mailings will not meet standards and it will lose revenue when controls are not effective or followed. We identified \$123,560 in monetary impact for recoverable revenue loss¹ and \$108,182 in non-monetary impact for revenue at risk.²

Closing Advanced Deposit Accounts

District management did not effectively monitor and require units to close all cancelled and inactive advance deposit accounts. District management thought they effectively monitored the advanced deposit accounts based on the fiscal year (FY) 2009 District

¹ Revenue that can be collected for goods delivered or services rendered.

² Revenue the Postal Service is at risk of losing (for example, when a mailer seeks alternative solutions for services the Postal Service currently provides).

Manager Financial Control – Eastern Area scorecard; however, we determined the scorecard did not identify all potentially inactive accounts. Headquarters Business Mail Acceptance (BMA) provided the area with an inactive account status e-mail, as well as the BMA Non-Active Accounts Report. The area relied on the status e-mail to identify inactive accounts in its scorecard to the districts instead of the more complete Non-Active Accounts Report. The district relied on the scorecard to monitor inactive accounts and did not consider the data in the Non-Active Accounts Report. As a result, units did not close 382 cancelled and inactive accounts valued at \$123,560. Since our audit visits, the units closed 366 of these accounts. See [Appendix B](#) for our detailed analysis of this topic.

We are not making a recommendation addressing how BMA communicates inactive accounts to the Eastern Area. We will address this issue separately in our FY 2009 Financial Installation Audit – BMEU capping report,³ which will summarize Postal Service-wide issues relating to BMEUs.

We recommend the Vice President, Eastern Area Operations, instruct the area Finance Manager and Kentuckiana District Manager to:

1. Evaluate inactive account data provided in the Business Mail Acceptance Non-Active Accounts Report and ensure management uses all inactive account data to monitor inactive accounts.

Timely Entering Postage Statements

District management did not effectively manage the accurate and timely entry of postage statement data in the PostalOne! system. We reviewed 404 postage statements and identified 92 entered into PostalOne! anywhere from 1 to 13 days after the date of mailing instead of at the time of mailing.⁴ Employees sometimes entered incorrect mailing dates in PostalOne! because they were not always aware of the correct policies and procedures for determining and recording the date of mailing.

District management monitored delayed statements weekly; however, they did not actively manage timely entry of postage statement data at the unit level because they relied on a report⁵ indicating the district average, as a whole, met the established 2 percent late postage statement goal. The relaxed oversight resulted in some timely entered statements appearing to be entered late into PostalOne!, and some late entered statements appearing to be entered timely. Based on these results, we will report \$108,182 as non-monetary impact for revenue at risk ([Appendix C](#)). See [Appendix B](#) for our detailed analysis of this topic.

³ Project Number 09BD002FF000 is associated with audits conducted in support of the audit of the U.S. Postal Service's financial statements.

⁴ Handbook DM-109, *Business Mail Entry*, Table 3-6.1, item 18.

⁵ National Delayed Postage Statement report obtained from the BMA website.

We recommend the Vice President, Eastern Area Operations, instruct the Kentuckiana District Manager to:

2. Effectively communicate policies and procedures related to recording the appropriate date of mailing in PostalOne!, including when to correct mailer-provided dates.
3. Actively manage timely entry of postage statement data at the unit level.

PostalOne! System Overrides

District management did not effectively monitor or manage the review of PostalOne! control overrides. These control overrides occur when a clerk decides to continue processing a mailing even though the mailing data entered does not conform to control parameters established in the system. District management did not realize unit management was not always reviewing the PostalOne! overrides.⁶ Through interviews and a review of unit records, we determined unit management did not always generate a daily override report and did not verify the appropriateness of all overrides.⁷ Two units that reviewed overrides did not review all of them because the volume was large, the overrides were routine, or the units did not understand some override descriptions. The remaining three units never generated the report. District management was not aware of the requirement for units to review overrides daily and for the district to provide ongoing oversight. As a result, the Postal Service has reduced assurance that mailings meet standards for the rate claimed and that they are collecting proper postage. Automatic, routine, and inaccurate overrides hinder the supervisor's ability to effectively review and monitor all overrides.

During our audit, we identified several systemic issues with PostalOne! overrides. We will address these issues separately in our FY 2009 Financial Installation Audit – BMEU report.

- Some overrides may be executed without the BMEU clerks' knowledge due to an application that automatically populates the override passwords if the application is not turned off daily.⁸
- PostalOne! requires clerks to process overrides for some routine transactions that should not require overrides. Headquarters BMA suggested adding a checkbox to the data entry fields to reduce the number of overrides, but management denied the request due to budgetary constraints.
- Supervisors must review the PostalOne! Override Report daily and take corrective action, as needed. However, we identified override descriptions

⁶ Handbook DM-109, Exhibit 1-1, page 2, Revenue Protection Responsibilities, item 4.

⁷ Handbook DM-109, Exhibit 1-2, page 3, Revenue Protection Responsibilities, item 14.

⁸ This application (called v_Go) resides on the Advanced Computing Environment (ACE) and ACE II.

inaccurately reported, missing descriptions for overrides of metered and precanceled stamp mailings, and lack of clarity among other descriptions.

We are not making a recommendation to address system changes. We will address this issue separately in our FY 2009 Financial Installation Audit – BMEU report.

We recommend the Vice President, Eastern Area Operations, instruct the Kentuckiana District Manager to:

4. Require unit management to review PostalOne! control overrides and require the business mail entry Manager to establish a system to monitor compliance. Until Postal Service Headquarters resolves the system limitations, we suggest units place increased emphasis on reviewing overrides unaffected by system limitations such as fees not paid, negative balances, and bypass verifications.

Management's Comments

Management agreed with our findings and recommendations. Management noted that planned PostalOne! technology enhancements scheduled for October 2009 will automatically close inactive accounts and move remaining balances into a miscellaneous revenue account, reducing the number of inactive accounts. Once management implements the technology enhancements, they intend to remove the inactive accounts from the area scorecard. Additionally, the Eastern Area issued a memorandum on September 9, 2009, asking District Managers to ensure units comply with Management Instruction DM 707-2009-2, *Compliance with Timely and Complete Postage Statement Entry Requirements*. The letter asked the districts to actively manage the timely entry of postage statements, overrides, and bypass verifications. See [Appendix D](#) for management's comments in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service OIG considers management's comments responsive to the recommendations in the report.

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



John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service established BMEUs for authorized mailers to present business mailings. The Postal Service requires mailers to properly prepare all mailings, take them to an approved BMEU, and pay for them before they enter the mailstream, unless otherwise authorized by the Pricing and Classification Service Center (PCSC) located in New York, New York.

The PostalOne! system is the Postal Service's primary system for recording business mail and Periodicals transactions. The PostalOne! system allows users to enter postage statements and other financial transactions and to retrieve reports necessary to manage the day-to-day business of their units. It also allows customers to submit postage statements and other information to the Postal Service through a web-based process.

This is an OIG-initiated audit to assess BMEU processes at the Kentuckiana District based on our BMEU PARIS Model. The model uses PostalOne! data to assign risk for 15 factors based on compliance and ranks the Postal Service's 74 districts.

FY 2009, Quarter II results indicate the Kentuckiana District was the second highest risk district nationwide and the highest in the Eastern Area. The model identified approximately \$14 million in "at risk" transactions and inactive accounts in the district. The transactions included the dollar value of mailings where BMEU personnel processed mailings using a system override.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether internal controls over postage statements, transaction overrides, and customer accounts are in place and effective at selected high-risk BMEUs within the Kentuckiana District.

We reviewed permit imprint, Periodicals, and Business Reply Mail/Postage Due accounts for inactivity and negative balances. We conducted interviews and analyzed user overrides of controls in the PostalOne! system to determine their validity. For the April 2009 reporting period, we reviewed all postage statements entered late in PostalOne!, according to its own records, and randomly selected 300 from the remaining 8,777 permit imprint and Periodicals postage statements to determine whether employees entered postage statement data timely. We interviewed district management to determine what procedures were in place to monitor BMEU financial risk factors.

We traced recorded financial transactions to and from supporting documentation and assessed the reliability of computerized data by verifying the computer records to

source documents. We used Postal Service instructions, manuals, policies, and procedures as criteria to evaluate internal controls and data reliability. We also evaluated whether the internal control structure over postage statements, transaction overrides, and customer accounts was implemented and functioning as designed. We interviewed supervisors and employees and observed operations at the following five judgmentally selected PostalOne! sites in the Kentuckiana District of the Eastern Area: Louisville, Campbellsville, Lexington, Evansville, and Lebanon Junction.

We conducted this performance audit from April through September 2009 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 officials on August 17, 2009, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact
<i>FY 2009 Financial Installation Audit – Versailles Business Mail Entry Unit, Versailles, KY</i>	FF-AR-09-099	2/20/2009	\$448,189
<i>FY 2009 Financial Installation Audit – New Haven Business Mail Entry Unit, New Haven, KY</i>	FF-AR-09-083	2/2/2009	\$0
<i>FY 2009 Financial Installation Audit – Corbin Business Mail Entry Unit, Corbin, KY</i>	FF-AR-09-019	11/20/2008	\$0
<i>FY 2008 Financial Installation Audit – Danville Business Mail Entry Unit, Danville, KY</i>	FF-AR-08-252	8/7/2008	\$0
<i>FY 2008 Financial Installation Audit – Winchester Business Mail Entry Unit, Winchester, KY</i>	FF-AR-08-206	6/17/2008	\$0
<i>FY 2008 Financial Installation Audit – Marion Business Mail Entry Unit, Marion, KY</i>	FF-AR-08-034	11/29/2007	\$0
<i>FY 2007 Financial Installation Audit – Harold Business Mail Entry Unit, Harold, KY</i>	FF-AR-07-176	5/31/2007	\$0

Management agreed with our findings and recommendations in these prior audits; however, we identified repeat findings with controls over timely postage statement entry and inactive accounts. In four of seven audit reports, we identified 168 postage statements entered into PostalOne! anywhere from 1 to 22 days late and reported a non-monetary impact of \$531,975. In one of seven audit reports, we identified two inactive postage due accounts totaling \$410.

APPENDIX B: DETAILED ANALYSIS

Closing Advanced Deposit Accounts

District management did not effectively monitor⁹ and require units to close all cancelled and inactive advance deposit accounts.¹⁰ District management thought they effectively monitored the advanced deposit accounts based on the FY 2009 District Manager Financial Control – Eastern Area scorecard; however, we determined the scorecard did not identify all potentially inactive accounts.

The May 2009 Eastern Area scorecard identified 661 inactive accounts. Of those, there were 279 inactive accounts (valued at \$24,057) identified for the Kentuckiana District. However, according to a BMA Non-Active Accounts Report,¹¹ as many as 14,836 inactive accounts (valued at \$1,482,642) existed in the Eastern Area as of May 2009. Of those, the report noted 1,501 potentially inactive accounts¹² (valued at \$178,082) existed in the Kentuckiana District.

**Inactive Accounts per the Area Scorecard and BMA Report
 As of May 2009**

Area/District	Number of Inactive Accounts	Compliance Rate¹³ (Percentage)	Book Value (Thousands)
Eastern Area			
Eastern Area Scorecard	661	99	\$103
BMA Report	14,836	86	\$1,483
Kentuckiana District			
Eastern Area Scorecard	279	98	\$24
BMA Report	1,501	88	\$178

The area scorecard used data provided by headquarters (which is also on their website). Area management considered accounts inactive when they were classified as “Inactive, Cancelled, Denied, or Deleted” in the reports. The reports also showed all the accounts labeled as “Active” in PostalOne! that have not had a mailing during the past 24 months. Because the Postal Service defines inactive accounts as accounts for which no mailing activity occurred for 2 years, we considered these potential inactive

⁹ Handbook DM-109, Table 1-1, BME Manager Responsibilities.

¹⁰ Handbook F-101, *Field Accounting Procedures (FAP)*, Section 16-7; Handbook DM-109, Section 5-9.3.4; FAP, Section 17-6.

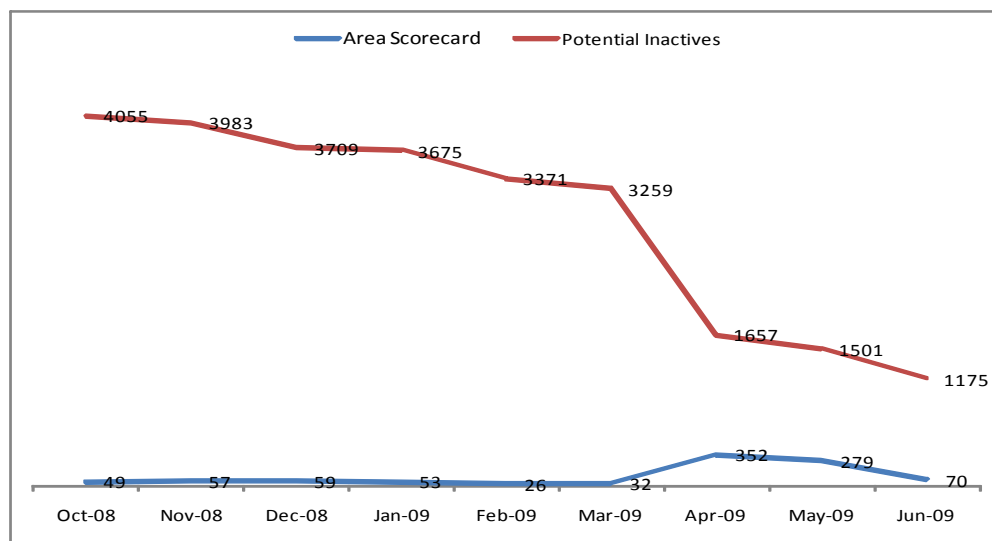
¹¹ The report is obtained from the BMA website and is based on PostalOne! data.

¹² This number may include some accounts that may not be inactive (e.g., Periodicals accounts that have not mailed in over 24 months at the original entry unit). However, it is a more realistic number than 279.

¹³ Measures the percentage of active versus inactive accounts in the district.

accounts and believe the area and districts should monitor them. The area did not include those accounts without activity during the past 24 months in the scorecard because BMA headquarters did not clearly identify them as inactive accounts in the weekly updates sent to area Managers.

Inactive Accounts per the Area Scorecard Versus Potential Inactive Accounts per the BMA Report



As a result of not effectively monitoring inactive accounts, we determined the five units we visited did not close 382 cancelled and inactive accounts totaling \$123,560.¹⁴ We consider this amount to be monetary impact, categorized as recoverable revenue loss.

Since our audit visits, the units closed 366 of the 382 cancelled and inactive advanced deposit accounts.

Timely Entering Postage Statements

District management did not effectively manage the accurate and timely entry of postage statement data into the PostalOne! system, in part because management reports used to monitor timeliness were incorrect. We noted PostalOne! users at the sites we visited did not always record the date of mailing correctly in system records. We reviewed 404 postage statements and identified 92 entered into PostalOne!

¹⁴ This includes \$22,987 refunded to Account Identifier Code (AIC) 126, Miscellaneous Non-Postal Revenue; \$83,006 refunded to AIC 122, Permit Imprint - Standard - Periodical Denied; and \$17,567 for 16 inactive accounts without resolution.

anywhere from 1 to 13 days after the date of mailing. [Appendix C](#) presents the non-monetary impact totaling \$108,182¹⁵ for revenue at risk. During our audit, we noted:

- The BMA Delayed Postage Statement reports indicated the district had 104 postage statements entered late. However, we found that 42 of them were entered on time; thus, 62 postage statements were actually entered late. We found that unit employees did not know how to change a mailing date when the mailer-provided date was inaccurate or did not change dates of mailings when reentering previously disqualified mailings. For example, when customers submit Postal Wizard¹⁶ statements electronically in PostalOne! one day, but bring the mail to the unit the following day, acceptance personnel must update the date of mailing in PostalOne! to reflect the date they verified the mail and released for processing.¹⁷
- Management reports indicated that 8,777 permit imprint and Periodicals statements were entered on time. We examined a random sample of 300 statements and found employees entered 30 of these late. Based on that sample, we estimate the five units actually entered 456 of the 8,777 postage statements late into PostalOne! (see [Appendix C](#)). However, because unit employees forgot to correct mailing dates or did not realize the mailing dates in PostalOne! must reflect the date mail was released to operations,¹⁸ PostalOne! showed an incorrect date. For example, in one unit, employees used the date they received the paperwork as the date of mailing for one periodical, even though they processed the mail days earlier. Employees thought they should record the later date as the date of mailing so the statement would not appear late.

Unit Name	Reported Late		Not Reported Late	
	Number of Statements Sampled	Number of Statements Input Timely	Number of Statements Sampled	Number of Statements Found Late
Louisville	31	28	60	1
Campbellsville	40	0	60	8
Lexington	14	3	60	7
Evansville	2	1	60	14
Lebanon Junction	17	10	60	0
Totals	104	42	300	30

¹⁵ We determined the value of 62 late statements, reported as such, was \$33,754; and we estimated \$74,428 as the dollar value of late postage statements, not reported as such, for the audit period based on a statistical projection of the results of our sample. See [Appendix C](#).

¹⁶ Postal Wizard provides mailers a secure method for entering postage statements electronically in PostalOne!. Small mailers who send less than 2,000 pieces per month typically use Postal Wizard.

¹⁷ Handbook DM-109, Table 3-6.1, item 18.

¹⁸ Handbook DM-109, Table 3-6.1, item 18.

Additionally, in four of seven financial installation audit reports issued for BMEU sites in the Kentuckiana District over the past 3 years, we identified 168 postage statements entered into PostalOne! anywhere from 1 to 22 days late and reported a non-monetary impact of \$531,975.¹⁹

Through interviews and a review of unit records, we found that Kentuckiana District management uses data from the BMA website to monitor the timely entry of postage statements into PostalOne! weekly. Management stated they took no action other than messaging, even for poorly performing units, because the district average for late statements indicated by the reports is usually under 2 percent. District management is required to review timely postage statement entry procedures with unit management monthly.²⁰

While Sarbanes-Oxley messaging and newsletters communicated the need to enter postage statement data timely, employees reported they received little guidance on how to determine the date of mailing, especially as it relates to unusual situations such as time-sensitive Periodicals, manifest mailings dropped overnight, mailings entered at convenience deposit points, or bypassed and disqualified mailings. Subsequently, we believe the reports Kentuckiana District Managers used to gauge compliance may not be a reliable indicator of performance.

¹⁹ *FY 2009 Financial Installation Audit – Versailles Business Mail Entry Unit, Versailles, KY* (Report Number FF-AR-09-099, dated February 20, 2009); *FY 2009 Financial Installation Audit – Corbin Business Mail Entry Unit, Corbin, KY* (Report Number FF-AR-09-019, dated November 20, 2008); *FY 2008 Financial Installation Audit – Danville Business Mail Entry Unit, Danville, KY* (Report Number FF-AR-08-252, dated August 7, 2008); *FY 2008 Financial Installation Audit – Winchester Business Mail Entry Unit, Winchester, KY* (Report Number FF-AR-08-206, dated June 17, 2008).

²⁰ Handbook DM-109, Exhibit 1-1, page 2, Revenue Protection Responsibilities, item 12.

APPENDIX C: CALCULATION OF NON-MONETARY IMPACT

This table presents non-monetary impact for postage statements not entered timely. The chart includes 62 late postage statements the Postal Service was aware of, as well as our projections of late postage statements recorded as on time.

Finding	Description	Amount
Sixty-two late postage statements identified by the Postal Service and confirmed by the OIG.	Revenue at Risk	\$33,754
Projected 456 postage statements recorded as timely were actually late.	Revenue at Risk	\$74,428
Total		\$108,182

Projection for Late Postage Statements Recorded as Timely

Our objective was two-fold: to statistically project the proportion of postage statements in the universe of statements recorded as entered timely (which in fact were not entered timely) and to statistically project the revenue amount associated with statements in the universe which were not entered timely.

To accomplish these objectives, at each of the five offices visited, we randomly selected 60 postage statements from the universe of statements reported as timely entered, for a total sample size of 300 statements from a total universe of 8,777. This sample design comprises a two-stage design where the elements of the first stage, or the primary units, are the offices and the second stage units are the postage statements.

To project the proportion of the universe of postage statements not entered timely, we used the point estimate of 5.20 percent (456 statements) with a 95 percent confidence level. For the projection of revenue associated with postage statements not timely entered, we calculated as a conservative amount, \$74,428, which is the lower bound of a two-sided 90 percent confidence interval. We can be 95 percent confident the population parameter we are estimating is at least as great as this number.

APPENDIX D: MANAGEMENT'S COMMENTS

MEGAN J. BRENNAN
VICE PRESIDENT, AREA OPERATIONS
EASTERN AREA



September 10, 2009

MEMORANDUM FOR LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS

Subject: Business Mail Entry Unit Risk Audit (Report Number FF-AR-09-Draft)

The Eastern Area has reviewed the subject Draft Audit Report (Report Number FF-AR-09-Draft) and is in agreement with the findings and recommendations. Additionally, we agree with the monetary and non-monetary calculations and have no Freedom of Information Act (FOIA) issues related to this audit.

Recommendation #1 – Evaluate inactive account data provided in the Business Mail Acceptance Non-Active Accounts Report and ensure all inactive data is used to monitor inactive accounts.

Response:

The Eastern Area agrees with the recommendation. There are two technology enhancements to PostalOne! scheduled for 2009. These enhancements will automatically close all inactive accounts and move any remaining balances into a miscellaneous revenue account. Since the Eastern Area scorecard is used by many individuals for core goals associated with NPA, we will not change the indicator in FY 2009 and will retain the current method of measurement through September 30, 2009. Due to the technology enhancements implemented in August and scheduled in October, it is our intent to remove this indicator from the Eastern Area scorecard. If we decide to utilize this measurement in the future, we will use the methodology recommended by the OIG.

Recommendation #2 – Effectively communicate policies and procedures related to recording the appropriate date of mailing in PostalOne!, including when to correct mailers provided dates.

ONE MARQUIS PLAZA
5315 CAMPBELLS RUN ROAD
PITTSBURGH PA 15277-7010
412-494-2510
FAX: 412-494-2582
WWW.USPS.COM

Response:

The Eastern Area agrees with the recommendation. A memorandum was issued on September 9, 2009, to all District Managers to ensure compliance with Management Instruction DM 707 -2009-2 *Compliance with Timely and Complete Postage Statement Entry Requirements*. This memorandum further instructed them to communicate these policies to all mail acceptance sites.

Recommendation #3 – Actively manage the timely entry of postage statement data at the unit level.

Response:

The Eastern Area agrees with the recommendation. A memorandum was issued on September 9, 2009 to all District Managers to ensure compliance with Management Instruction DM 707 -2009-2 *Compliance with Timely and Complete Postage Statement Entry Requirements*. This memorandum further instructed them to strive for as close to 100% on time entry as possible.

Recommendation #4 – Require unit management to perform reviews of PostalOne! control overrides and require the business mail entry manager establish a system to monitor compliance. Until Postal Service Headquarters resolves the system limitations, we suggest units place increased emphasis on reviewing overrides unaffected by system limitations such as fees not paid, negative balances, and bypass verifications.

Response:

The Eastern Area agrees with the recommendation. A memorandum was issued on September 9, 2009, to all District Managers to ensure compliance with Management Instruction DM 707 -2009-2 *Compliance with Timely and Complete Postage Statement Entry Requirements*. This memorandum further instructed them to communicate an increased emphasis on overrides and bypass verifications.

If you have any questions regarding this response please contact Mark Tappe, Eastern Area Accounting Manager, at (412) 494-2574.



Megan J. Brennan

Enclosure