



August 30, 2010

LORRAINE G. CASTELLANO
ACTING DISTRICT MANAGER, TRIBORO DISTRICT

SUBJECT: Audit Report – [REDACTED] Business Mail Entry Units Mail
Verification Procedures (Report Number MS-AR-10-005)

This report presents the results of our self-initiated audit of business mail verification procedures at the [REDACTED] Business Mail Entry Units (BMEUs) (Project Number 10RG003MS000). Our objective was to determine whether business mail verification procedures were in place and effective at the [REDACTED] BMEUs. We selected these BMEUs in the Triboro District based on factors evaluated by the U.S. Postal Service Office of Inspector General's (OIG) Performance and Results Information Systems (PARIS) models, fiscal year (FY) 2009 commercial revenue. The [REDACTED] BMEUs generated 71 percent of the Triboro District's \$92.2 million of revenue. These two BMEUs were not included in the statistical sample we selected in support of the audit on the U.S. Postal Service's financial statements and for the Sarbanes-Oxley Act (SOX) of 2002.¹ Additionally, as of July 19, 2010, these sites were not included in the Postal Service's review of mail acceptance and verification procedures as part of its SOX responsibilities.² See [Appendix A](#) for additional information about this audit.

Business Mail Entry is one of the most significant revenue sources for the Postal Service. The Postal Service has established mail verification procedures to determine whether mailers prepare their mailings in accordance with required Postal Service standards and pay the correct amount of postage.

[Conclusion](#)

Business mail verification procedures were in place and effective at the [REDACTED] BMEU; however, business mail verification procedures were not in place and effective at the [REDACTED] BMEU. We identified multiple mail verification issues at the [REDACTED] BMEU and we identified an issue at the [REDACTED] BMEU related to the Mailing Evaluation and Readability Lookup Instrument (MERLIN) Sample Selection Matrix.

¹ We identified similar mail verification issues at other BMEUs as part of our financial statement and SOX audits.

² The Postal Accountability and Enhancement Act requires the Postal Service to comply with certain provisions of SOX.

BMEU

Business mail verification procedures were not in place and effective at the [REDACTED] BMEU. Specifically, mail acceptance employees did not perform required in-depth presort verification procedures such as bundle, label, sortation, and miscellaneous error verifications. Mail acceptance employees must perform in-depth verification procedures when *PostalOne!* prompts them to do so, when problems are detected during initial verification or when the mail acceptance employee deems it necessary.³

Unit employees recorded in *PostalOne!* that mail was accurately submitted without conducting the required presort verification procedures and calculations. Specifically, employees did not use Postal Service (PS) Form 2866, Presort Verification Record, as required⁴ at non-MERLIN sites.⁵ PS Form 2866 contains instructions for performing in-depth verification procedures, recording instances where mail was not prepared in accordance with Postal Service standards, and calculating the error percentage.⁶ These conditions occurred because unit employees believed that the inception of the Performance-Based Verification (PBV) program⁷ in April 2009 negated the requirement to use PS Forms 2866.

The Postal Service uses in-depth verification procedures to detect errors in mailings. If more than 5 percent of the mail verified is not prepared in accordance with Postal Service standards, mailers must either correct the mailings or pay additional postage. When employees do not follow required mail verification procedures, the Postal Service has reduced assurance that mailings meet Postal Service standards and that mailers pay the appropriate postage. Additionally, entering unsubstantiated results in *PostalOne!* negatively impacts the integrity of the PBV program by decreasing the likelihood that *PostalOne!* will prompt future in-depth verifications of mailings when it should. For standard mail letters and standard mail flats presented between April 1, 2009, and March 31, 2010, the unit has allowed business customers \$18.3 million in workshare discounts⁸ without conducting proper in-depth mail verification procedures. We estimate that this amount could have grown to \$36.7 million over the next 2 years had the unit not taken corrective action based on our audit. We consider the \$55 million to be revenue at risk, a non-monetary impact.

³ Handbook DM-109, *Business Mail Acceptance*, Section 3.4, March 2010.

⁴ DM-109, Section 3-5.4.

⁵ The [REDACTED] BMEU is considered a non-MERLIN site because it does not have a MERLIN machine.

⁶ Percentage of mail not prepared in accordance with Postal Service standards.

⁷ PBV generates the verification frequency and sample size to be used for verification for each mail preparer based on their past performance and the size of their mailings.

⁸ Worksharing refers to rate discounts provided to mailers for presorting, pre-barcoding, handling or transporting mail.

We recommend the acting district manager, Triboro District, instruct [REDACTED] BMEU personnel to:

1. Use Postal Service Form 2866, Presort Verification Record, and record actual results in *PostalOne!*.

[REDACTED] BMEU

Mail verification procedures were in place and effective at the [REDACTED] BMEU. However, we noted a [REDACTED] BMEU mail acceptance employee did not use the sample selection matrix to select tray samples for verification on MERLIN. Although the mail acceptance employee generated the sample selection matrix, he did not select sample trays corresponding to the tray numbers identified in the matrix.⁹ Instead the mail acceptance employee judgmentally selected sample trays from the top of one of two pallets because it was more convenient than opening the shrink-wrap and selecting the required trays.

When employees accept a mailing based on testing a limited sample, it is important that it represents the entire mailing. Randomizing the sample selection increases the likelihood that tested mailpieces are representative of the entire mailing. When employees do not follow required sample selection procedures during mail verification, the Postal Service has reduced assurance that mailings meet Postal Service standards and that mailers pay the appropriate postage. We consider the \$2,241 of worksharing discounts for this mailing to be revenue at risk, a non-monetary impact.

We recommend the acting district manager, Triboro District, instruct [REDACTED] BMEU personnel to:

2. Perform mail verification sampling in accordance with the sample selection matrix.

Management's Comments

We met with management on August 13, 2010, regarding these issues. Management agreed with the findings and recommendations, stated that they instructed appropriate [REDACTED] personnel to comply with mail verification procedures, and chose not to provide written comments.

Evaluation of Management's Comments

OIG considers management's actions responsive to the report recommendations.

⁹ DM-109, Section 3-6.1.1.

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 Darrell E. Benjamin, Jr. 
VERIFY authenticity with ApproveIt

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

Attachment

cc: Steven J. Forte
Pritha Mehra
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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service established the mail verification process to ensure mailers prepare mailings in accordance with standards for the rate at which the mailing is presented.¹⁰ Required presort verifications are summarized as follows:

Initial Verification — Acceptance employees must perform an initial verification on all submitted mailings, which includes reviewing postage statements, fund verifications, mailpiece examination, and document review. Mailings that pass are cleared for processing. If an acceptance employee identifies errors during initial verification, the employee must perform an in-depth verification and advise the customer of any errors and options for correcting the mailings. The mailer can either rework the mailing or pay additional postage.

In-Depth Verification — Acceptance employees must perform in-depth verification procedures on any mailings when the PBV feature in the *PostalOne!* system requests it. When the acceptance employee deems it necessary or when the initial verification or cursory review detects problems, these procedures may also be performed as voluntary in-depth verifications.¹¹

In-depth verification includes examining mailpieces for weight, bundle preparation, barcode quality, automation compliance, quantity, and presort verification. The in-depth verification provides a graduated verification schedule for mailers who consistently provide well-prepared mailings. These mailers are moved to a less frequent in-depth verification cycle.

PBV — The PBV approach generates the verification frequency and sample size to be used for verification for each mail preparer based on their past performance and the mailing size. This approach focuses verifications on mail preparers that submit inadequately prepared mail, while reducing the number of verifications performed for mail preparers who consistently submit adequately prepared mail. The reduction in the total number of verifications requested allows acceptance employees to better support verification activities and provide better customer service.

Presort Verification — A presort verification must be performed:

- For mailings with errors identified in any initial verification step, or if scheduled by *PostalOne!* PBV.

¹⁰ DM-109.

¹¹ DM-109 Section 3-4.

- When *PostalOne!* schedules an in-depth verification. Acceptance employees must use MERLIN when PBV requests a presort verification. The results are recorded automatically in MERLIN reports.¹²

For non-MERLIN sites, sites where MERLIN is unavailable or for mail that is not compatible with MERLIN, employees must manually record the results of a presort verification on PS Form 2866, and all information must be reflected in *PostalOne!*

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether business mail verification procedures were in place and effective at the [REDACTED] BMEUs. Both units are in the Triboro District of the Northeast Area. This is not one of the statistically selected financial installation audits we conduct in support of the audit of the Postal Service's financial statements and Sarbanes-Oxley.

To accomplish our objective, we judgmentally selected two BMEUs in the Triboro District based on factors evaluated by the OIG PARIS models and FY 2009 operating commercial revenue. In FY 2009 the Triboro District ranked among the most at risk in the Northeast Area. The [REDACTED] BMEUs generated 71 percent of the Triboro District's \$92.2 million of revenue.

We reviewed guidance for business mail acceptance and verification procedures and interviewed key personnel at the selected BMEUs to gain an understanding of existing processes and management controls. We verified two judgmentally selected mailings and followed existing quality control procedures to determine the extent of revenue protection at each selected location. Finally, we observed mail acceptance, verification, and clearance processes; and reviewed postage statements and other supporting documentation.

We conducted this audit from October 2009 through August 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 assessed the reliability of computer-generated data by verifying computer records to source documents. We discussed our

¹² DM-109, Section 3-5.

¹³ In FY 2009 the [REDACTED] BMEU generated \$39.6 million in revenue and the [REDACTED] BMEU generated \$26 million in revenue.

¹⁴ We obtained FY 2009 revenue for the [REDACTED] BMEU (unit finance number 3509950120) and [REDACTED] BMEU (unit finance number 3581700131) from the Application System Reporting (ASR) report in the Accounting Data Mart. ASR reports include data on verifications performed on business mailings and the details associated with the mail preparation quality.

observations and conclusions with management officials on August 13, 2010, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

The U.S. Postal Service OIG did not identify any prior audits or reviews related to these two BMEUs.

APPENDIX B: NON-MONETARY IMPACTS

Non-Monetary Impacts

Finding Impact	Category	Amount
1	Revenue at Risk ¹⁵	\$55,027,647
2	Revenue at Risk	\$2,241
TOTAL		\$55,029,888

Since April 1, 2009, the [REDACTED] BMEU has allowed business customers \$18.3 million in workshare discounts for standard mail letters and standard mail flats without conducting proper in-depth mail verification procedures. We estimate that this amount could have grown to \$36.7 million over the next 2 years had the unit not taken corrective action based on our audit. We consider the \$55 million to be revenue at risk, a non-monetary impact.

The [REDACTED] BMEU acceptance employee did not use the sample selection matrix for selecting tray samples to be verified on MERLIN and, instead, judgmentally selected sample trays from the top one of two pallets because it was more convenient. We consider the \$2,241 of worksharing discounts for this mailing to be revenue at risk, a non-monetary impact.

¹⁵ Revenue the Postal Service is at risk of losing (for example, when a mailer seeks alternative solutions for services the Postal Service currently provides).