OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Effects of Compliance Rules on Mailers

Audit Report

August 24, 2011

Report Number MS-AR-11-006

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

August 24, 2011

Effects of Compliance Rules on Mailers

Report Number MS-AR-11-006

IMPACT ON:

Business Mail Entry Requirements and Compliance Rules for Mailers and Mail Service Providers.

WHY THE OIG DID THE AUDIT:

Our objective was to evaluate mailer concerns with U.S. Postal Service compliance rules. Specifically, we evaluated concerns with Postal Service compliance rules governing Intelligence Mail™ barcodes (IMb), Move Update, and Plant-Verified Drop Shipments (PVDS). This report responds to a request from Senator Susan M. Collins.

WHAT THE OIG FOUND:

The Postal Service has not always fully considered how changes to mail compliance rules impact mailers. Specifically, the Postal Service did not always adequately estimate the cost to mailers of complying with proposed rules, collaborating with the mailing industry, and training and monitoring personnel to accept business mailings.

The Postal Service is currently taking steps to improving collaboration with mailers when developing compliance rules.

WHAT THE OIG RECOMMENDED:

We recommended the vice president, Product Information, in coordination with the vice president, Domestic Products, consider mailing industry costs as part of cost-benefit analyses. We also recommended the vice president, Consumer and Industry Affairs, in coordination with the vice president, Domestic Products, further involve stakeholder groups in formal dialogue during the strategic pianning phase of new initiatives and enhance transparency and accountability by documenting Postal Service collaborative efforts. In addition, we recommend the vice president, Mail Entry and Payment Technology, train and monitor acceptance employees on changes to program requirements and related compliance rules.

WHAT MANAGEMENT SAID

Management concurred with the findings and recommendations and stated that, where practicable, it will include mailers' costs in its cost-benefit analysis of new initiatives. Management is also implementing a formal process which contains stakeholder analysis and financial tracking. Management stated that the Postal Service will provide continued training to field acceptance personnel.

AUDITORS' COMMENTS:

Management's comments are responsive to the report and corrective actions should resolve the issues identified in the report.

Link to review the entire report

August 24, 2011

MEMORANDUM FOR: JAMES P. COCHRANE
VICE PRESIDENT, PRODUCT INFORMATION

SUSAN M. LACHANCE
VICE PRESIDENT, CONSUMER AND INDUSTRY AFFAIRS

PRITHA MEHRA
VICE PRESIDENT, MAIL ENTRY AND PAYMENT TECHNOLOGY

GARY C. REBLIN
VICE PRESIDENT, DOMESTIC PRODUCTS

E-Signed by Darrell E. Benjamin, Jr
VERIFY authenticity with e-Sign

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

SUBJECT: Audit Report – Effects of Compliance Rules on Mailers (Report Number MS-AR-11-006)

This report presents the results of our audit of the Effects of Compliance Rules on Mailers (Project Number 11RO002MS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Janet Sorensen, director, Sales and Service, or me at 703-248-2100.

Attachments

cc: Ronald A. Stroman
Paul Vogel
Ellis Burgoyne
Deborah Giannoni-Jackson
Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction

This report presents the results of our audit of the effects of compliance rules on mailers (Project Number 11RO002MS000). The report responds to a request from Senator Susan M. Collins. Our objective was to evaluate mailer concerns with U.S. Postal Service compliance rules. Specifically, our audit focused on the effects of recent and planned changes to compliance rules related to Intelligent Mail™ barcode (IMb), Move Update, and Plant-Verified Drop Shipments (PVDS). In addition, we reviewed how the Postal Service uses the Mail Evaluation Readability Lookup INstrument (MERLIN) to evaluate IMb readability and compliance with Move Update rules. This audit addresses strategic risk. See Appendix A for additional information about this audit.

Conclusion

The Postal Service did not always fully consider how changes to mail compliance rules impact mailers. Specifically, the Postal Service did not always adequately:

- Estimate the cost to mailers of complying with proposed rules.
- Collaborate with the mailing industry.
- Train and monitor personnel who accept business mailings.

However, the Postal Service has increased emphasis on improving communication and cooperation with the mailing industry. Shortly after the new postmaster general (PMG) was selected in December 2010, he identified four core business strategies and among them was "improve the customer experience." The PMG has stressed this strategy to Postal Service personnel and reiterated it during the May 2011 National Postal Forum when he stated that improving the customer experience was an incredibly important strategy for the Postal Service. He stated that the Postal Service is considering ways to improve its processes to better integrate with that of the largest customers. We further noted that the Postal Service is taking steps to improve collaboration with mailers when developing compliance rules such as:

- Implementing predictive mail preparation and rule changes and limiting software releases to two major and four minor[1] releases each year.

- Indefinitely postponing the requirement to use IMb to qualify for automation discounts.

- Migrating from a focus of removing discounts to working with mailers to help them address their issues related to Full Service.

- Taking action to educate mailers and clerks on the requirements for PVDS including issuing advisories, conducting training and webinars for employees, and developing a checklist for mailers and Postal Service clerks.

[1] Two of the minor software releases will be in conjunction with the major releases.

Although the Postal Service has taken several recent steps to be more responsive to customer needs and improve the customer experience, it will need to continue in this direction of collaboration and dialogue to maximize benefits and reduced costs for the Postal Service and its customers.

Cost of Mailer Compliance

The Postal Service did not estimate the cost to mailers of complying with proposed rules governing recent program changes. Program implementation of Intelligent Mail, Move Update, and Suite^{Link} were of significant concerns to mailers, who expressed dissatisfaction over mounting implementation and maintenance costs. As a result, the Postal Service's relationship with its customers has been negatively impacted and the risk that mailers may seek alternatives for their mailing needs has increased. Excerpts of comments mailers made to us include:

- "Costs to mail continue to rise causing our clients to look for alternatives."
- "The clients I have spoken with do not see a benefit in making the switch to IMb and are afraid of additional expenses for their mailing. Many of our clients are reducing their mail volume and moving towards other advertising."
- ". . . lack of USPS support and the ongoing mandated changes have caused many business mailers, including ourselves, to look at how to move to e-solutions faster."

Intelligent Mail

The Postal Service did not prepare a cost-benefit analysis to determine whether the benefits of IMb exceeded total mailing industry and Postal Service costs. IMb provides an information-enriched mailstream that allows increased accountability and data-based decision making but implementing IMb can be costly. In their comments on the Postal Service's fiscal year (FY) 2010 *Annual Compliance Report*, the National Postal Policy Council suggested that the Postal Regulatory Commission (PRC) require the Postal Service to conduct a cost-benefit analysis when contemplating changing mailing regulations or entry requirements to identify and calculate uncompensated costs mailers would incur as a result of the changes. The PRC stated in its FY 2010 *Annual Compliance Determination Report* that a cost-benefit analysis designed to calculate costs incurred by mailers would require accurate, detailed information on mailers' costs. Neither the Postal Service nor the PRC has access to such information or a ready means to obtain it. The PRC also stated that mailers, rightfully, may be reluctant to divulge such information.

During our audit we found that mailer costs vary widely among the various segments of the mail industry; however, the Postal Service is not precluded from working with industry experts to estimate overall mailer costs. Other federal agencies are required[2] to consider cost impacts and alternatives that maximize net benefits to society. Obtaining mailer cost estimates would give the Postal Service a better understanding of the impact of its proposed rules on its various customer segments.

The Postal Service is also not precluded from soliciting mailer input as part of its cost estimate process. For example, mailers stated that investment in Full-Service Intelligent Mail for larger mailers ranged from $400,000 to $3.25 million. In addition, mailers estimated that recurring annual expenditures for Full-Service Intelligent Mail ranged from $50,000 to $500,000. By estimating mailer costs, the Postal Service could attempt to mitigate any negative effects on mail volume by modifying costly rules or taking other action.

The Postal Service may find it difficult to staff or fund new cost-estimate efforts due to its current financial condition[3]. Additionally, mailers may argue that Postal Service estimates represent price increases that violate Postal Service pricing requirements.[4] Nonetheless, mailer cost estimates are important because mailers cited cost as the main reason for not adopting Full-Service IMb. Excerpts of mailers' comments included:

- "Clients won't pay for the service."
- "For the volume of mail we produce, the Full-Service discount doesn't offset the costs of additional software, management of electronic documentation, and unique barcodes."
- "Too costly and complicated. No return on investment. No value to the end customer."
- "The discount allowed at this point does not justify the additional expense and software. In other words, at this point there is no benefit to spending thousands of dollars in additional equipment and thousands of dollars in additional man power for the very minor discount. Also, clients do not view the IMb as any major benefit to their mailing."

Move Update

The Postal Service also did not estimate mailers' costs or complete a cost-benefit analysis for the proposed Move Update change related to Moved Left No Address/Box Closed No Order (MLNA/BCNO) mail. Under a proposed rule published in the September 2010 *Federal Register*, mailers must refrain from mailing to these

[2] Executive Order 13563, Improving Regulation and Regulatory Review, dated January 18, 2011.
[3] The Postal Service lost $8.5 billion during FY 2010 and $2.6 billion during the first two quarters of FY 2011. The Postal Service is projecting cumulative losses of $238 billion through FY 2020.
[4] The Postal Accountability and Enhancement Act (PAEA) of 2006 establishes procedures for the Postal Service to change product and service prices and limits the amount of such increases.

undeliverable addresses when the effective date of the change of address (COA) is older than 95 days. Some mailers claimed that the cost to implement this rule is excessive and amounts to a rate increase.

The requirement is particularly burdensome for First-Class™ mailers because of the business practices of mailing to an addressees' last known address. Costs include one-time charges for programming and data storage and recurring costs for handling mail.

Mailers also questioned the overall benefit of this rule. Although we were unable to substantiate the accuracy of this statement, one mailer organization estimated that for every $1,000 in additional recurring costs to implement the rule, the Postal Service gains $159 in additional revenue but would incur an additional $293 in handling costs. Mailers also questioned the benefit of suppressing this mail; because they believe Postal Service data are inaccurate, citing examples of inconsistencies between different Postal Service address systems and examples of MLNA/BCNO mail subsequently being successfully delivered.

Suite^{Link}

Some mailers were concerned about the cost and complexity of implementing Suite^{Link} and questioned the benefit of this requirement. Suite^{Link} is intended to improve business addressing information by assigning a suite number when available and allow the Postal Service to achieve increased mail volume sorted in delivery point sequence. The Postal Service did not estimate mailer costs to implement Suite^{Link} but our discussion with mailers and mailer organizations indicated the costs will vary widely from practically zero to hundreds of thousands of dollars for one-time and recurring costs. Postal Service management estimated annual savings of $20 million resulting from improved addressing on 500 million mailpieces.

Collaboration with Mailers

Although the Postal Service has recently taken steps to improve communication with mailers, it did not effectively collaborate with mailers on certain previous and ongoing significant program changes. Continued collaboration between the Postal Service and the mailing industry could have mitigated problems encountered by many mailers. Specifically, we noted that:

- Although the Postal Service worked with the mailing industry through the Mailers Technical Advisory Committee (MTAC)[5] to implement[6] Full-Service Intelligent Mail, it did not involve MTAC workgroups during the strategic planning phase of Full-Service Intelligent Mail.

- Although the Postal Service obtained comments when changes were published in the *Federal Register*, use of MTAC may have addressed mailer concerns early on and developed alternatives to the Move Update MLNA/BCNO rule.

- Although the Postal Service consulted with the industry regarding Suite^{Link} through Partners in Tomorrow, this group is made up primarily of software vendors with little direct participation by mailers. Assessing Suite^{Link} through MTAC would have better facilitated mailer collaboration with the Postal Service by examining mailers' concerns and exploring alternatives.

The MTAC members we talked with noted recent improvements in the Postal Service's efforts to work with the mailing industry. However, they expressed frustration with the Postal Service's lack of attention to MTAC recommendations. They believed that better accountability and transparency of MTAC recommendations would improve collaboration and result in more timely resolution of issues. Although the Postal Service reports the status of MTAC workgroup recommendations through its recently developed Resolution Issue Tracking System (RITS), we noted that RITS provides little detail on the Postal Service's progress on recommendations, including specific actions completed, responsibilities assigned, and estimated milestone dates.

The Postal Service could also enhance its relationship with the mailing industry by further engaging stakeholders such as MTAC to develop rules. By engaging stakeholders early on, the Postal Service may avoid unanticipated mailer issues and rule retractions that frustrate mailers and tarnish the Postal Service brand (goodwill). Effective use of key stakeholders may also speed implementation of rules through the *Federal Register* process as fewer mailer comments are received and the Postal Service has a fuller understanding of the potential impact on mailers to better respond to comments.

Postal Service Efforts to Improve Customer Relations

The Postal Service has recently taken steps to improve collaboration with mailers on Intelligent Mail. During the February 2011 MTAC meeting, the Postal Service announced its intention to implement predictive mail preparation and rule changes, including limiting software releases to two major and four minor releases each year. The

[5] A major venue for Postal Service and mailing industry collaboration.

[6] MTAC work groups 117 and 122 are examples of how the Postal Service and the mailing industry worked together to implement Intelligent Mail. The mailing industry is currently collaborating with the Postal Service on Intelligent Mail through MTAC user group 1.

Postal Service also announced its intention to encourage adoption of IMb through its value proposition for customers and service providers rather than requiring mailers to adopt the IMb to qualify for automation discounts.

The Postal Service indefinitely postponed the mandatory use of IMb scheduled for May 2011 and the removal of discounts scheduled for January 2011. Also during the February MTAC meeting, the Postal Service announced that it planned to refund Full-Service Intelligent mailers for address change service fees charged between October 2010 and February 2011. The Postal Service took this action because of its commitment to providing free address change service to these mailers. These actions will allow the Postal Service to better address mailing industry concerns over Intelligent Mail.

Additional mailers have adopted IMb since the Postal Service opted to encourage rather than mandate IMb adoption. Between Quarters 2 and 3 of FY 2011, the percentage of mailpieces using the legacy POSTNET barcode decreased from 38 to 27 percent. Additionally, IMb mail increased from approximately 58 to 69 percent. Basic IMb mail increased from approximately 21 to 29 percent and Full–Service Intelligent Mail from approximately 37 to 40 percent[7] of total mail volume.

Customer Service and Training

The Postal Service did not always adequately train and monitor field personnel on Intelligent Mail and PVDS program requirements. Postal Service acceptance employees were not always familiar with Intelligent Mail compliance rules and did not always understand the requirements enough to address customers' questions or have the authority to act. The Postal Service could encourage more mailers to adopt Full-Service Intelligent Mail by having more knowledgeable acceptance employees. Mailers complained that acceptance employees were not adequately trained on issues dealing with Intelligent Mail. Excerpts of mailers' comments included:

- "You have management pushing the IMb due to PAEA[8] with no real training or support for the people who have to get the work done. You need field people who know and understand the process well enough to help your customers get the job done instead of having to wait for answers. You need full customer service."

- "Lack of Postal Service support (technical advice/direction to resolve problems, get answers)."

- "We cannot get straight answers as to why we should use it. Your people are not educated about IMb."

- "The Postal Service should train their employees better. It gets annoying when I

[7] The Postal Service reported that as of the third quarter FY 2011, Basic IMb mail volume was approximately 9.7 billion mailpieces and Full Service IMb mail volume was approximately 13.1 billion mailpieces.
[8] Postal Accountability and Enhancement Act.

have to show the BMEU[9] the DMM[10] reference that allows me to enter mail the way I claimed after they say I can't do it that way."

- "Some of the information we keep hearing in regards to benefits of FS[11] Mailing by local USPS personnel is misleading because they don't understand the concept."

- "To this point the USPS has used most of their encouragement as threats. They need to be customer focused. They need a complete culture shift - from the top down through all of the levels to deal with customers as customers. The USPS hasn't seemed to realize they have competition and it is "e"."

- "Not well thought out or supported by the USPS. Rules change daily. Feedback is non-existent."

Mailers also expressed concerns about the lack of Postal Service training and mailer support for PVDS. The Postal Service tightened up its drop shipment practices, putting pressure on clerks and mailers to comply with requirements for complete and accurate Postal Service (PS) Forms 8125, Plant-Verified Drop Shipment Verification and Clearance. [12] The increased scrutiny of PS Forms 8125, exposing misunderstandings of PVDS requirements by both Postal Service clerks and mailers and resulting, at times, in improperly delayed or rejected mail. This increased mailer frustration with compliance rules. As a result, the Postal Service took action to educate mailers and clerks on the requirements including issuing advisories clarifying the purpose of PS Form 8125, conducting training for more than 6,000 employees, developing a checklist for mailers and Postal Service clerks, and conducting webinars for mailers. In addition, the Postal Service is developing through MTAC an e-induction process that promises to streamline the PVDS process. However, with staff reductions, facility closures, and potential changes in PVDS procedures, it is important that the Postal Service properly train and monitor employees to ensure PVDS controls are maintained.

Other Matters of Interest – MERLIN

More than one-third[13] of the mailers we surveyed did not believe that MERLIN accurately measures how well their mailings comply with Postal Service requirements. However, Postal Service studies showed that most mailers were not significantly impacted by MERLIN barcode readability failures. The readability threshold for both the IMb and POSTNET barcode is 90 percent; therefore, a mailing can contain up to 10 percent unreadable barcodes and still pass MERLIN verification for barcode

[9] Business mail entry unit (BMEU).
[10] *Domestic Mail Manual* (DMM).
[11] Full Service.
[12] This form, which serves as the sole source of evidence of the custody of pieces entered as a mailing at the time of PVDS induction, was identified by the Postal Service as a key control weakness in Sarbanes-Oxley (SOX) compliance reviews. The SOX Act of 2002 aims to improve corporate governance and to enhance the accuracy of financial reporting.
[13] We asked mailers whether they thought MERLIN verification standards accurately measured how well mailings complied with Postal Service standards. We received 211 replies to this question. Of those, 88 (or 41.7 percent) said no.

readability. Postal Service MERLIN IMb readability tests[14] showed that 96 percent of IMb letter mailings and 94 percent of IMb flat mailings met the 90 percent threshold.

Mailers were also concerned that Postal Service performance-based evaluations using MERLIN would result in improper assessments because of inconsistencies between MERLIN's Move Update data and the Move Update databases the Postal Service requires mailers to use. However, the results of Postal Service Move Update verifications indicated few mailers were impacted, as only approximately 2 percent of mailings tested failed Move Update. Furthermore, mailings that did fail did so by a large margin, indicating that significant issues exist with the mailings. Therefore, we do not believe the concerns mailers expressed regarding MERLIN are substantiated.

Recommendations

We recommend the vice president, Product Information, in coordination with the vice president, Domestic Products:

1. Estimate and consider mailing industry costs as part of cost-benefit analyses, where practical, to determine whether the benefits of new initiatives and rule changes are justified in light of total industry costs.

We recommend the vice president, Consumer and Industry Affairs, in coordination with the vice president, Domestic Products:

2. Further involve stakeholder groups in formal dialogue during the strategic planning phase of new initiatives.

3. Enhance transparency and accountability by documenting Postal Service collaborative efforts (discussions, action items, resolutions, and milestones).

We recommend the vice president, Mail Entry and Payment Technology:

4. Continue to train and monitor Postal Service acceptance employees on changes to program requirements and related compliance rules.

Management's Comments

Management concurred with recommendation 1 and stated that it is participating in Mailers Technical Advisory Committee Workgroup 8. The objective of the workgroup is to create a standard process for releasing complete product information concurrent with the public announcement of new and existing products. Management also stated that, where practicable, it will incorporate qualitative estimates of compliance costs as well as information about compliance costs provided by customers into their evaluation of the benefits of new initiatives.

[14] The Postal Service conducted the readability tests from June 30 through November 2, 2009.

Management indicated agreement with recommendation 2 and stated that, in addition to the current industry stakeholder engagement channels, the Postal Service is developing several councils to enhance the Postal Service industry outreach. Management also stated that the PMG has been holding monthly meetings with stakeholders since January 2011. In addition, the Postal Service will use a new project management process that contains a stakeholder analysis process.

Management agreed with recommendation 3 and stated that the Postal Service is implementing a formal process called Delivering Results, Innovation, Value and Efficiency (DRIVE), which contains a thorough stakeholder analysis. DRIVE is also comprised of detailed road maps, which will update core decision processes and contain financial USPS tracking.

Management agreed with recommendation 4 and stated that the Postal Service will provide continued training to field acceptance personnel. Management also stated that it conducts bi-weekly field discussions and distributes weekly advisories to field units to communicate process changes and updates to standards. In addition, field units have access to multiple job aids from the Business Mail Acceptance webpage. See Appendix C for management's comments in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments to be responsive to the recommendations and 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 Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A: Additional Information

Background

To improve efficiency, reduce costs, and comply with SOX, the Postal Service imposed additional demands on customers through increased compliance requirements for programs such as Intelligent Mail, Move Update, and PVDS. Although these initiatives allowed the Postal Service to cut costs and increase efficiencies, they also passed costs on to customers. These additional costs and requirements may force mailers to resort to other forms of communication. The resulting revenue loss would offset the cost savings from these programs. We performed this audit to evaluate the effects of these initiatives on mailers. We have included descriptions of these initiatives in the following paragraphs.

Intelligent Mail

Intelligent Mail is a comprehensive term that describes the integration of electronic mailing documentation that includes IMb on all mail and containers and scans to track mail at all points in the delivery process. There are four IMbs: IMb for letters, cards, and flats; Intelligent Mail tray barcode; Intelligent Mail container barcode; and the Intelligent Mail package barcode.

There are two options for Intelligent Mail: Full Service and Basic. Under the Full-Service option, mailers are required to apply unique IMb on their letter and flat mailpieces, trays and sacks, and other containers. Under the Basic option, mailpieces may contain a unique IMb, but uniqueness is not required. Full-Service mailers must submit postage statements and mailing documentation electronically. With Intelligent Mail, the Postal Service planned to transform the value of mail by helping customers manage business process, track cash flows, and build and maintain customer relations. According to the Postal Service, Intelligent Mail allows mailers to track mail as it moves through the mailstream. Data concerning mail movement is available through every point in the delivery process. The Postal Service plans to use Full-Service Intelligent Mail to support the service performance requirements in the PAEA[15]. The Postal Service offers a discount of $.003 (First Class) or $.001 (Standard & Periodicals) for each mailpiece using Full-Service IMb. In addition, the Postal Service offers free address correction service and start-the-clock data to Full-Service Intelligent mailers.

Move Update

The Postal Service established Move Update to reduce the estimated $1.9 billion annual expense associated with undeliverable-as-addressed (UAA) mail. Move Update was designed to reduce the number of mailpieces in a mailing that requires forwarding, return, or disposal as waste. Move Update also helps ensure that mail reaches its intended recipients timely. Move Update specifies that addresses used to obtain all

[15] Public Law 109-435, December 20, 2006.

First-Class and Standard Mail® presorted and automation discount rates must be updated for COA activity within 95 days before the date of mailing by a Postal Service-approved method. Mailings that do not follow address updating requirements are subject to single-piece First-Class Mail® prices for each piece in the mailing. Effective January 4, 2010, the Postal Service established a Move Update assessment charge of 7 cents for First-Class and Standard mailpieces that are not updated for COA orders, subject to a tolerance of 30 percent. The Postal Service states that use of the term "assessment charge" is intended to indicate that mail verification by itself does not establish compliance or non-compliance with Move Update standards. The Postal Service asserts that the Move Update adjustments will encourage mailers to adopt Move Update while reasonably taking the impact of price changes into account, enhancing operational efficiency by reducing UAA mail.

In September 2010 the Postal Service issued a notice in the *Federal Register* announcing that it intended to expand Move Update requirements. Under the proposed rule, to comply with Move Update standards, mailers must refrain from mailing to MLNA/BCNO. When customers move or allow their Post Office Box service to expire without providing a new address to redirect their mail, the carrier files either a MLNA or a BCNO COA order. These types of COA orders are included in the address change databases the Postal Service maintains.

SuiteLink

The Postal Service Coding Accuracy Support System (CASS) improves the accuracy of carrier route, five-digit ZIP, ZIP + 4®, and delivery point codes that appear on mailpieces. CASS certification is required to qualify mail for automation discounts. CASS is offered to all mailers, service bureaus, and software vendors who want to evaluate their address-matching software and improve the quality of their ZIP + 4, Carrier Route Information System, and five-digit coding accuracy. This process is graded by the Postal Service's National Customer Support Center and the results are returned to mailers to provide useful diagnostics for correcting deficiencies. CASS enables the Postal Service to evaluate the accuracy of address-matching software and allows mailers the opportunity to test their address-matching software packages and, after achieving a certain percentage of compliance, be certified by the Postal Service.

CASS also enables mailers to measure and diagnose internally written and commercially available, address-matching software packages. The effectiveness of service bureaus' matching software can also be measured. The Postal Service requires address-matching software vendors to update their software logic once a year to meet higher quality standards. The Postal Service is requiring SuiteLink beginning in August 2011 as part of its annual CASS certification. SuiteLink improves business addressing information by assigning a suite number when available and allows the Postal Service to achieve increased mail volume sorted in delivery point sequence.

PVDS

PVDS pertains to discounted mailings claimed at destination entry prices and transported by a mailer to destination postal facilities. Postal Service employees verify the mailings at the origin BMEU or Detached Mail Unit (DMU). The mailer is required to submit a postage statement that summarizes all the postage and volume information for the mailing. The mailer must also include a PS Form 8125 for each segment of the mailing that is to be deposited at destination Postal Service facilities. The origin BMEU or DMU verifies the accuracy of the postage statement, PS Form 8125, and other supporting documents. After the BMEU or DMU accepts the mail, the Postal Service returns it to the mailer with a dated and signed PS Form 8125. The mailer then transports the mail to each drop location and presents the PS Form 8125 as proof that postage has been paid. In addition, the mailer is required to have a valid drop shipment appointment with the destination Postal Service facility. Once the shipment arrives at the facility, Postal Service personnel must verify it to the PS Form 8125 information. If the information on the form matches the shipment, the mail is released to operations. The destination Postal Service facility must investigate any discrepancies on the PS Form 8125 with the origin BMEU or DMU. In FYs 2008 and 2009 revenue from destination-entered Standard Mail was $15.3 billion and $13 billion, respectively.

MERLIN

MERLIN is a tool the Postal Service uses to assist with the verification and acceptance of discounted mailings. MERLIN verifies First-Class Mail, Standard Mail, and Periodicals mailings against DMM standards for sorting, barcodes, and piece counts. MERLIN also checks address accuracy. These tests impact mail qualification for IMb, Move Update, and PVDS. MERLIN provides reports on the results of MERLIN tests. Mailers can ask for a second-level appeal with a Mailpiece Design Analyst or other designated Postal Service employee. Mailers can further appeal barcode readability failures to the Pricing and Classification Service Center.

Objective, Scope, and Methodology

The objective of this audit was to evaluate mailers' concerns with Postal Service compliance rules. Specifically, we focused on recent and planned changes to compliance rules related to Intelligent Mail, Move Update, and PVDS. In addition we reviewed how the Postal Service uses MERLIN to evaluate compliance with Intelligent Mail and Move Update rules. We performed this audit in response to a request from Senator Susan M. Collins.

To accomplish our audit objective we interviewed Postal Service officials to gain an understanding of the Intelligent Mail, Move Update, and PVDS programs and related roles and responsibilities. We also interviewed mailers and representatives of mailing organization about their concerns regarding Intelligent Mail, Move Update, and PVDS. We interviewed MTAC representatives and reviewed MTAC meeting minutes and

presentations to determine MTAC roles and responsibilities regarding how the Postal Service shares information with mailers and how mailers advise and make recommendations to the Postal Service on matters concerning Postal Service programs and compliance rules. In addition, we surveyed mailers and mail service providers. We sent our survey to all of the member mailing organizations in MTAC and asked the mailing organizations to distribute the survey to their members. We received 221 responses from mailers and mail service providers.

We conducted this performance audit from October 2010 through August 2011 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on July 11, 2011, and included their comments where appropriate.

We assessed the reliability of the MTAC RITS data by interviewing MTAC representatives responsible for the data. We also compared the data in the system to MTAC meeting minutes and other source documentation. We determined the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Full Service Intelligent Mail Program Customer Satisfaction	DA-MA-11-001(R)	11/23/2010	None	Surveys of Full Service Intelligent Mail participants disclosed mixed results for program usefulness. The primary reason mailers did not participate in the Full Service Program were high start-up costs and limited program benefits. The report recommended the Postal Service emphasize the benefits of Full Service Intelligent Mail to business mailers; consider offering program incentives to offset program start-up costs; and provide training to business mail entry and *PostalOne!* Help Desk employees. Management generally agreed with the findings and recommendations.
Move Update Program and Investigations	SA-AR-10-001	5/12/2010	$304 million Revenue at Risk (non-monetary)	The Postal Service did not establish a sufficient method to evaluate compliance with Move Update standards at acceptance until 2009, 12 years after Move Update began. Compliance standards are not clear and consistent. The tolerance level established at mail acceptance is high at 30 percent. However, once the U.S. Postal Inspection Service establishes noncompliance with Move Update standards, there is zero tolerance. The report made recommendations regarding Move Update enhancement, training, the identified revenue deficiency; and the use of Postal Inspectors in Move Update investigations. Management partially agreed with the first three recommendations and disagreed with the last two. They remain open pending resolution. Management also disagreed with the $304 million non-monetary benefit.

Plant Verified Drop Shipment Controls	MS-AR-10-001	2/9/2010	None	Controls were not adequate to prevent mailers from adding mail enroute to the destination Postal Service facility and to ensure the Postal Service receives all revenue due from PVDS. The report recommended the Postal Service weigh verify all drop shipments, provide scales in PVDS areas, train employees and supervisors responsible for verifying PVDS at destination facilities, and provide an electronic reporting solution for comparing PS Forms 8125 information at origin and destination. We resolved all but one recommendation through the resolution process. The remaining recommendation remains open pending December 2012 completion.
Intelligent Mail Barcode Project Planning and Application Development Life Cycle	IS-AR-09-006	3/31 2009	None	The Postal Service was unaware of the significant complexities and extensive requirements needed for the IMb Full Service-Seamless Acceptance Service Performance (SASP) Release 1. As a result, delays occurred in the design and build and test schedules have been compressed. The report recommended the Postal Service establish an incremental approach for approval funding of future project releases; appoint an information system security representative; and ensure the certification and accreditation process is complete before deploying the IMb FullService-SASP Release 1 application. Management agreed with the first two recommendations and partially agreed with the third.

Intelligent Mail/ Seamless Acceptance Project Management	MS-AR-09-006	3/31/ 2009	None	Overall, controls were not adequate to ensure the Postal Service managed the IMb/SASP project effectively. The report recommended the Postal Service quantify strategic benefits of the Intelligent Mail program to mailers, prepare an integrated project budget, develop potential cost saving estimates, incorporate workhour estimates into work plans for future project releases, and develop risk management and procurement plans. Management agreed or partially agreed with all of the recommendations.
Status of Intelligent Mail Enabling Infrastructure	DA-AR-08-005(R)	5/28/2008	None	The Postal Service has successfully upgraded key mail processing equipment and 300 Postal Service facilities with additional network capacity. However, clarification of requirements is needed to ensure material handling systems fully support future Intelligent Mail programs. The report recommended the Postal Service clarify the 24-digit barcode requirement and ensure contingency plans for the Integrated Data System/National Directory Support System sever consolidation. Management agreed with both recommendations.

Appendix B: Other Impacts

Other Impacts

Finding	Impact Category
Collaboration with Mailers	Goodwill Branding[16]

[16] An actual or potential event or problem that could harm the reputation of the Postal Service.

Appendix C: Management's Comments

UNITED STATES POSTAL SERVICE

August 12, 2011

Shirlan Holland
Acting Director, Audit Operations
1735 North Lynn Street
Arlington VA 22209-2020

Effects of Compliance Rules on Mailers Report Number MS-AR-11
Project Number 11RO002MS000

We recommend the vice president, Product Information, in coordination with the vice president, Domestic Products:

Recommendation No. 1
Estimate and consider mailing industry costs as part of cost-benefit analyses, where practical, to determine if the benefits of new initiatives and rule changes are justified in light of total industry costs.

Management Response/Action Plan

Domestic Products is currently participating in Mailers' Technical Advisory Committee (MTAC) Workgroup # 8. The objective of this Task Team is to create a standard process for the release of complete product information concurrent with the public announcement of new and existing products. The desired outcome of this workgroup is:

- Speed up the industry make-ready process for new postal products
- Eliminate confusion and inaccuracies in the marketplace
- Enable mailing industry companies to recommend new postal products in a timely manner
- Reduce the number of questions requiring a USPS response
- Provide an additional internal information/education tool for USPS staff

Additionally, management will follow a process similar to the above regarding any changes to the requirements for existing products.

Management concurs with this recommendation and, where practicable, will incorporate qualitative estimates of compliance costs as well as information about compliance costs provided by customers into our evaluation of the benefits of new initiatives.

Target Implementation Date: Ongoing

Responsible Official: Karen Tucker, Manager, Product Support

475 L'Enfant Plaza SW
Washington DC 20260

We recommend the vice president, Consumer and Industry Affairs, in coordination with the vice president, Domestic Products:

Recommendation No. 2
Further involve stakeholder groups in formal dialogue during the strategic planning phase of new initiatives.

Management Response/Action Plan

In addition to the current industry stakeholder engagement channels, several councils are being developed to enhance the Postal Service industry outreach. First, the PMG has been holding monthly meetings with the leaders of a wide cross section of stakeholders since January 2011. We discuss strategic initiatives and solicit input in their formulation. We are also expanding product user groups similar to Periodical Operations Advisory Committee (POAC), and Periodicals Advisory Group (PAG), starting with one for Packages. Additionally, a new project management process will be used by the USPS that contains a stakeholder analysis process.

Target Implementation Date: Ongoing

Responsible Official: Sharon Owens, Manager, Industry Engagement & Outreach

We recommend the vice president, Consumer and Industry Affairs, in coordination with the vice president, Domestic Products:

Recommendation No. 3
Enhance transparency and accountability by documenting Postal Service collaborative efforts (discussions, action items, resolutions, milestones).

Management Response/Action Plan
Management concurs with the above recommendation. The Postal Service is implementing a formal process titled Delivering Results, Innovation, Value and Efficiency (DRIVE), which contains a thorough stakeholder analysis. DRIVE is also comprised of detailed road maps, which will update core decision processes and contain financial USPS tracking. The stakeholder analysis will be rolled out on a regular basis to the USPS Executive Leadership Team. Additionally, the MTAC quarterly leadership meetings will continue to provide another level of accountability.

Target Implementation Date: Ongoing

Responsible Official: Sharon Owens, Manager, Industry Engagement & Outreach

We recommend the vice president, Mail Entry and Payment Technology:

Recommendation No. 4
Continue to train and monitor Postal Service acceptance employees on changes to program requirements and related compliance rules.

Management Response/Action Plan

Management agrees that continued training will be provided to field acceptance personnel. The Postal Service has adopted a structured release schedule for *PostalOne!* and FAST with two major and two minor releases per year. Internal and external training are a part of the structured release

process. Mail Entry conducts bi-weekly field SOX discussions and distributes weekly Advisories to field units which are used to communicate process changes and updates to standards. Mail Entry has recently distributed PVDS job aids to all field units to provide more effective guidance on PVDS verifications. Multiple job aids are posted on the BMA webpage and are accessible to all field units. Additionally, Mail Entry and Payment Technology is developing online tools to assist small mailers with access to Full-Service and Intelligent Mail Barcodes. Training will continue to be an ongoing effort supported through our BME Proficiency program.

Target Implementation Date: Ongoing

Responsible Official: Martin McGuire, A/Manager, Mail Entry

We do not believe that this report contains any propriety or business information and may be disclosed pursuant to the Freedom of Information Act.

for James P. Cochrane
James P. Cochrane
Vice President, Product Information

for Gary C. Reblin
Gary C. Reblin
Vice President, Domestic Products

Susan M. LaChance
Vice President, Consumer & Industry Affairs

for Pritha N. Mehra
Pritha N. Mehra
Vice President, Mail Entry & Payment Technology

cc: **Ronald A. Stroman**
Paul Vogel
Joseph Corbett
Ellis A. Burgoyne
Deborah Giannoni-Jackson
Sally Haring
CARM
Dena Spain