OFFICE OF
INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Mail Verification Procedures at Detached Mail Units

Audit Report

January 12, 2012

Report Number MS-AR-12-002

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

January 12, 2012

Mail Verification Procedures at Detached Mail Units

Report Number MS-AR-12-002

IMPACT ON:
Detached mail units (DMUs) and business mailers who present mailings at DMUs.

WHY THE OIG DID THE AUDIT:
Our objective was to evaluate mail verification procedures at DMUs for Standard and First-Class Mail®. A DMU is an on-site acceptance unit at the mailer/mailing agent's production facility.

WHAT THE OIG FOUND:
U.S. Postal Service mail verification procedures were not always adequate to ensure that business mailings contained sufficient postage or met Postal Service specifications. We project that revenue loss was at least $10.3 million over the 78-day audit period. Postal Service employees also sometimes overrode system-generated notifications that mailings did not contain sufficient postage or meet specifications without verifying whether these notifications were valid.

We also noted that DMU staffing was inconsistent and did not always align with mailers' production levels, resulting in idle staff time at some locations and heavy workload at others.

WHAT THE OIG RECOMMENDED:
We recommended that management review automation efforts to date to identify improvements they can make in the interim while mailers continue implementing Intelligent Mail barcode technologies and continue on-going mail verification training efforts while DMU employees continue to use manual mail verification processes. We also recommended that management enhance automated systems to notify managers when acceptance employees override Mail Evaluation Readability Lookup INstrument (MERLIN) postage due results and develop automated tools that managers can use to monitor and evaluate DMU staffing and scheduling.

WHAT MANAGEMENT SAID:
Management agreed with the findings, recommendations and monetary impact. Management is working on solutions to automate mail verification, acceptance and induction. The Postal Service continues to conduct field training based on identified needs. In addition, the Postal Service is developing a process to notify managers of MERLIN postage due overrides and field staffing tools for business mail acceptance.

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

Link to review the entire report

January 12, 2012

MEMORANDUM FOR: PRITHA N. MEHRA
VICE PRESIDENT, MAIL ENTRY AND PAYMENT
TECHNOLOGIES

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 – Mail Verification Procedures at Detached Mail
Units (Report Number MS-AR-12-002)

This report presents the results of our audit of mail verification procedures at detached
mail units (Project Number 11RG013MS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any
questions or need additional information, please contact Janet Sorensen, director,
Marketing and Service,[1] or me at 703-248-2100.

Attachments

cc: Ellis A. Burgoyne
Deborah M. Giannoni-Jackson
Corporate Audit and Response Management

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[1] Formerly Sales and Service.

TABLE OF CONTENTS

Introduction

This report presents the results of our audit of mail verification procedures at detached mail units (DMU) (Project Number 11RG013MS000). Our audit objective was to evaluate mail verification procedures at DMUs for Standard and First-Class Mail to determine whether the U.S. Postal Service received the appropriate postage and whether mailings met Postal Service specifications. We randomly selected 30 DMUs from a universe of the 250 largest revenue-producing DMUs in the nation. This self-initiated audit addresses financial and operational risks. See Appendix A for additional information about this audit.

Before accepting business mail, Postal Service employees verify that it qualifies for the class and postage rate paid. When there is an operational advantage, the Postal Service establishes an on-site mail acceptance unit at the mailer/mailing agent's production facility. These units are designated as DMUs. In fiscal year (FY) 2011, business (commercial) mail revenue accounted for $47.9 billion of the $66.1 billion total revenue. The DMUs, of which there were approximately 1,279 nationwide, generated $27.0 billion of revenue, or 40.8 percent of total revenue in FY 2011. Standard and First-Class Mail® revenue from DMUs was $13.6 billion and $11.3 billion, respectively. The remaining $2.1 billion of revenue at the DMUs consisted of Periodicals, Package Services, and Parcel Post.

Conclusion

Postal Service mail verification procedures were not always adequate to ensure that business mailings contained sufficient postage or met Postal Service specifications. Specifically, at nine of the 30 DMUs we audited the Postal Service accepted mailings that did not have sufficient postage or did not meet Postal Service specifications. These conditions occurred because acceptance employees overlooked mail preparation errors, relied too heavily on mailers when verifying mail, and were not aware of the in-depth mail verification procedures. The lost revenue associated with the mailings we verified totaled $15,283. We project that revenue losses were at least $10.3 million over the 78-day audit period. Additionally, we have no reason to believe that revenue loss is limited to the 78-day audit period. We also identified $1.8 million[2] of revenue at risk at two DMUs where Postal Service employees overrode Mail Evaluation Readability Lookup INstrument (MERLIN) [3] results without verifying whether the mail deficiencies identified by MERLIN were valid. See Appendix B for our monetary impact calculation.

We also observed that DMU staffing was inconsistent and did not always align with mailers' production levels, resulting in idle staff time at some locations and heavy workload at others. This condition occurred because staffing DMUs is complex and management does not have readily available tools to properly match DMU staffing with mailers' production schedules.

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[2] We did not project the revenue at risk to the sampled universe.
[3] A tool the Postal Service uses to assist with the verification and acceptance of discounted mailings.

Revenue Deficiencies

Employees performing mail verification procedures did not detect mailings with insufficient postage or those that did not meet Postal Service mailing standards at nine of the 30 units. These conditions occurred due to employee oversight while visually scanning the mail for errors and because acceptance employees relied heavily on mailers when verifying mail and were not aware of the in-depth mail verification procedures. As a result, the Postal Service has increased risk of revenue loss and additional processing costs. The revenue loss associated with the mailings we verified totaled $15,283. We project that revenue loss is at least $10.3 million over the 78-day audit period.

In addition, Postal Service employees sometimes overrode system notifications that stated mailings were not compliant with requirements. We identified $1.8 million[4] of revenue at risk at three DMUs. Postal Service employees at two of the DMUs overrode MERLIN results without verifying whether the mail deficiencies identified by MERLIN were valid. See Appendix C for a list of mail verification issues we identified.

Specifically, we identified the following:

- Mailing Standards Not Met: While conducting initial verifications[5] business mail acceptance employees did not always detect mail that did not meet required mailing standards. For example, at one site acceptance employees charged a mailer letter rates for mail that exceed letter dimensions,[6] the mailer should have paid flat rates. At another site, we found metered mail with missing postage amounts.

- Mailpiece Discrepancies: At one site we noticed that the mailer's production report[7] exceeded the number of pieces listed and paid for on the postage statement. The acceptance employee accepted the mailer's explanation that spoilage caused the discrepancy instead of performing an in-depth verification. We performed a mailpiece count[8] and determined that the number of mailpieces in the mailing exceeded the number of mailpieces on the postage statement. At another site, an acceptance employee approved a mailing using sample mailpieces the mailer provided, but we identified issues with the barcode location when we independently sampled mailpieces.

- Optional Procedures (OP): An acceptance employee did not detect a postage shortage because the OP[9] agreement did not require the mail to be weight verified. We weighed sample mail at one DMU under an OP agreement and identified

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[4] We did not project the revenue at risk to the sampled universe.
[5] Acceptance employees must perform an initial verification on all mailings by completing a checklist that includes such things as review of supporting documents and a cursory review of the mail.
[6] *Domestic Mail Manual* 300, Section 101.1.1.b.
[7] This report is also known as the *Postal Service Qualification Report* and lists, by ZIP Code, the number of mailpieces qualifying for each rate by presort level.
[8] We performed a mailpiece count using Postal Service (PS) Form 8040, *Bulk Mail Acceptance Work Sheet*.
[9] The OP mailing system allows the Postal Service to verify and accept identical weight and/or non-identical weight permit mail by means other than the standard verification procedure of weighing mail in bulk.

underpaid postage. Fourteen of the 30 DMUs we audited operated under OP agreements.

- MERLIN Overrides: Employees at two units overrode MERLIN results that required additional postage for the mailings tested without verifying whether the results were valid. We noted that there is no centralized report available to alert management if acceptance clerks override MERLIN postage due results.

The conditions occurred for a variety of reasons. First, as we observed during this audit and in a prior audit,[10] acceptance employees relied too heavily on mailers when verifying mail. Placing Postal Service employees on-site at the mailers' place of business to conduct compliance activities can result in added risk and a situation of undue influence on the employees. Second, mail acceptance procedures rely heavily on clerk knowledge and are subject to human error. Acceptance employees we interviewed were not always aware of in-depth mail verification procedures.[11] Mail acceptance is a complex labor-intensive process and procedures can vary among DMUs depending on type of mail, mailer processes, special agreements, and other factors. While further training and monitoring of acceptance employees could continue to improve mail verification, it remains challenging for Postal Service employees to be knowledgeable about the myriad of Postal Service mailing requirements and for the Postal Service to create all-inclusive checklists and job aids.

Streamlined Acceptance

The Postal Service is moving toward automating the mail acceptance process using streamlined acceptance and an electronic induction procedure.[12] The Postal Service plans to leverage existing Intelligent Mail container barcodes and electronic documentation to streamline the verification for payment of the mail, destination entry point discounts and ensuring containers are inducted into the correct destination facility. The Postal Service is currently conducting a pilot. Electronic induction can reduce the dependence on paper-driven processes, directly reducing the amount of manual validations conducted on shipments at destination plants and reducing paperwork and workhours at DMUs. Electronic induction can also allow for more advanced sampling, verification, and reconciliation capabilities.

Technology provides the opportunity to establish more effective and efficient mail verification processes, rather than automating legacy processes. A properly designed automated business mail entry verification processes could simplify mail acceptance procedures, reduce revenue loss, and reduce DMU staffing requirements. Additionally, a recent audit report[13] noted that the Postal Service plans for automated verification of mail during processing will require increased mailer participation in full-service

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[10] *Mail Verification Procedures at Long Island Detached Mail Units* (Report Number MS-AR-11-003, dated May 26, 2011).
[11] In-depth procedures include verification steps beyond the initial steps that include more extensive review of sample mail and supporting documents.
[12] Previously this initiative was called "Seamless Acceptance."
[13] *Strategic Approaches to Revenue Protection* (Report Number MS-AR-11-007, dated September 20, 2011).

Intelligent Mail barcode (IMb) technology. However, as shown in Table 1, less than half of the mail volume in FY 2011 was Full-Service IMb compliant; therefore, the Postal Service will need to continue addressing mail verification deficiencies through training and oversight while seeking to increase Full-Service IMb participation.

Table 1. Full-Service Intelligent Mail Compliance[14]			
Fiscal Year	**Total Mailpieces (billions)**	**Full-Service Mailpieces (billions)**	**Full-Service Volume**
2011	133.2	51.5	39%

Source: *PostalOne!*

DMU Staffing

DMU staffing did not always align with mailers' production. For example, two mail acceptance employees at one DMU we visited did not have any mail to verify during their work tour. In contrast, a mail acceptance employee at another DMU had 31 mailings to verify during his work tour. The table below shows that the number of mailings clerks verified varied significantly among the units we audited.

Table 2. Mailings Verified per Clerks	
Mailings Verified	**Number of DMUs***
0-2	8
3-5	8
6-9	8
10-31	5

Source: *PostalOne!*
* We excluded one site that is not permanently staffed.

At the 16 DMUs where clerks performed five or fewer mail verifications, supervisors stated that they base staffing on set schedules, not mailer production schedules. Four of the 16 supervisors for these units stated that they determine staffing needs based on employee bids for locations and tours. Three of the 16 supervisors stated they depend on the mailer or clerk to notify them if a clerk is not needed because of light workload.

Staffing inefficiencies occurred because staffing DMUs is complex and management does not have readily available tools to properly match DMU staffing needs with mailers' production schedules. The postmaster or supervisor responsible for creating, maintaining, and updating DMU staffing schedules[15] must obtain weekly production schedules from the mailers as far in advance as possible. DMU production schedules

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[14] Commercial mail volume consisting of First-Class and Standard Mail and Periodicals.
[15] Handbook DM-109, *Business Mail Acceptance* Section 2-3.4, Scheduling for Projected Production, March 2010.

are not uniform, may be difficult to interpret, and are subject to unscheduled changes. The postmaster or supervisor must also take into account other factors such as mail transportation requirements and Postal Service mail processes and transportation equipment availability. Additionally, verification procedures may vary significantly among DMUs according to the types of mailings processed and other factors such as special agreements.

The Postal Service does not have nationally established systems or workhour metrics that postmasters and supervisors can use to make staffing decisions and gauge staffing inefficiencies for DMU acceptance clerks. Such tools are available in other Postal Service operations areas. For example:

- Postal Service delivery supervisors can use the Delivery Operations Information Systems and Post Office managers can use the Windows Operations Survey to analyze data and make decisions that increase efficiency.

- The Postal Service has a Customer Service Variance (CSV) management tool that captures workhours used to right-size staffing estimates for mail verification. The system shows mail acceptance takes on average approximately 28 minutes. However, CSV uses Labor Distribution Code (LDC) 48[16] employee hours and does not factor in LDC 79[17] DMU employee hours.[18]

The Postal Service can set performance metrics to gauge unit performance. The metrics can take into account known information such as the number and type of verifications the clerks are performing. The Postal Service can also discuss with mailers how to better align Postal Service resources with mailer needs. Since the Postal Service establishes an on-site acceptance unit at the mailer/mailing agent's production facility when there is an operational advantage to the Postal Service, it is also reasonable for the Postal Service to periodically examine whether changes in mail volume at a DMU negate the operational advantage of the arrangement. The Postal Service can engage mailers in this discussion and jointly look for ways to better align Postal Service resources with mailer needs. Discussions might include better coordination of staffing resources and verification schedules.

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[16] Customer Service/Administrative/Miscellaneous.

[17] Mailing Requirements and Business Mail Entry.

[18] An LDC is a 2-digit code that identifies major work assignments of employees. The first number identifies the function within an office and the second identifies the type of activity being performed. LDC 48 includes non-supervisory hours of customer service employees assigned to dispatch activities and miscellaneous retail activities at stations, branches, and associate offices. LDC 79 workhours are part of the marketing and communications function and are used for mailing requirements and business mail entry activities.

Recommendations

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

1. Review automation efforts to date to identify improvements that can be made in the interim while mailers continue to implement Intelligent Mail barcode technologies.

2. Continue ongoing mail verification training efforts while detached mail unit employees continue to use manual mail verification processes.

3. Enhance automated systems to notify managers when acceptance employees override Mail Evaluation Readability Lookup INstrument results.

4. Develop and implement automated tools that managers can use to monitor and evaluate detached mail unit staffing and scheduling.

Management's Comments

Management concurred with the recommendations and monetary impact. Regarding recommendation 1, management agreed that additional tools are needed to increase mailer participation in Full-Service Intelligent Mail. Management is developing an online tool that will enable small business mailers to upload address files to match with delivery point validation, Move Update, Intelligent Mailpiece and tray barcodes, and sortation. Management said that electronic induction will provide an automated solution to replace hard copy PS Forms 8125, Plant-Verified Drop Shipment (PVDS) Verification and Clearance. The Postal Service is designing seamless acceptance to automate acceptance and verification processes. The Postal Service plans to implement all these solutions by June 2013.

Regarding recommendation 2, management stated the Postal Service continues to conduct field training sessions based on indentified needs. Management is working with the Postal Service Sarbanes-Oxley management office to developed specialized standard operating plans and job aids for acceptance and verification procedures. This is an ongoing effort that will continue through January 2013.

Regarding recommendation 3, management agreed to develop a process by June 2013 for notifying managers when employees override MERLIN results.

Regarding recommendation 4, management stated that the Postal Service is currently developing field staffing tools for business mail acceptance. Management expects to implement these tools by June 2013.

See Appendix E 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 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

The Postal Service established the mail verification process to ensure that business mailers prepare their mailings in accordance with standards for the rate at which the mailing is presented, including piece counts, class, and postage. When there is an operational advantage, the Postal Service establishes an on-site acceptance unit at the mailer/mailing agent's production facility. These units are designated as DMUs. To participate in on-site acceptance, the mailer/mailing agent must agree to establish a secure, safe working environment for the DMU employees. This normally includes an office or work location within view of the shipping dock. Safeguards must be provided for Postal Service equipment such as computers, MERLIN, revenue-protection seals, and financial documents.

The primary role for a DMU is to ensure:

- A fair and equitable application of Postal Service rules and standards for all mailers.

- Timely collection and reporting of all Postal Service revenue.

- Proper preparation standards of the mailed product for the class and level of presort or transportation discount claimed.

Mail verification at DMUs consists of initial and in-depth verifications. During initial verification, acceptance employees perform a cursory review of the mailing. This includes checking the mail in and reviewing the mailer's account to verify that the mailer paid all appropriate fees and sufficient funds are available. Acceptance employees must also verify that the mailpiece count on the postage statements matches the *U.S. Postal Service Qualification Report*. Acceptance employees must perform an in-depth verification when they find problems with the mail during initial verification or when prompted by the *PostalOne!* system. In-depth verification includes procedures such as presort and mailpiece count verifications, shortpaid meter sampling, and automation mail compliance reviews.

MERLIN provides a valuable automated verification of letter-size and flat-size mailings against mailing standards. However the system relies on acceptance clerks to properly enter manual data, select the sample mailpieces to be tested, interpret MERLIN reports, confirm errors, and either override or submit MERLIN results.

In its FY 2011 *Report on Internal Control over Financial Reporting and Compliance* the Postal Service's independent auditor identified business mail acceptance as a control deficiency. Additionally, in a previous audit report[19] we determined that revenue loss will continue to occur until the Postal Service automates verification procedures.

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[19] *Strategic Approaches to Revenue Protection* (Report Number MS-AR-11-007, dated September 30, 2011).

Performance Based Verifications (PBV)

PBV[20] is a *PostalOne!* feature that uses a mathematical framework to determine In-Depth Verification frequency and mailpiece sample size. PBV analyzes mailers' historical mail preparation performance. For mailers who historically perform well (such as "no errors identified"), PBV reduces the frequency of required In-Depth Verification tests. PBV increases the frequency of required In-Depth Verification tests for mailers that historically perform poorly. The effectiveness of PBV depends on acceptance employees electronically recording all errors[21] in *PostalOne!*.

Objective, Scope, and Methodology

Our objective was to evaluate mail verification procedures for Standard and First-Class Mail at DMUs to determine whether the Postal Service received the appropriate postage and whether mailings met required Postal Service specifications. To accomplish our objective, we randomly selected 30 DMUs from a universe of the 250 largest revenue-producing DMUs in the nation.[22] See Appendix D for our sample design and projections.

In addition, we reviewed guidance for business mail acceptance and verification procedures and interviewed key Postal Service and mailer personnel at the selected DMUs to gain an understanding of existing processes and management controls. We verified selected mailings and followed existing quality control procedures to determine the extent of revenue loss. We analyzed Postal Service system-generated reports and compared data between mailers and the Postal Service. Finally, we reviewed postage statements and other supporting documents.

We conducted this performance audit from March 2011 through January 2012 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 December 1, 2011, and included their comments where appropriate.

We assessed the reliability of computer-generated data by verifying computer records to source documents. We determined that the data were sufficiently reliable for the purposes of this report.

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[20] Handbook DM-109, Section 3-4.1.
[21] Handbook DM-109, Section 3-4.2.
[22] The Standard and First-Class Mail revenue in this universe ranged from $22 million to $580 million.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Strategic Approaches to Revenue Protection	MA-AR-11-007	9/30/2011	None	The Postal Service continues to address revenue protection through technological initiatives as well as checklists, quick service guides, and training for clerks. However, revenue loss will continue to occur until the Postal Service replaces current manual processes with automated verification procedures. Management agreed with our recommendation overall and provided planned actions and a planned completion date.
Mail Verification Procedures at Long Island Detached Mail Units	MS-AR-11-003	5/26/2011	None	Employees at two of the four DMUs we audited did not always follow business mail verification procedures. The report recommended that management instruct DMU employees to follow acceptance procedures despite customer pressure and conduct a "lesson learned" meeting between the manager, business mail entry, and DMU employees regarding the issues identified in the report. Management agreed with the finding and recommendations.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Fiscal Year 2010 Financial Installation Audit – Business Mail Entry Units	FF-AR-11-006	1/20/2011	None	The Postal Service did not comply with key financial reporting controls for business mail acceptance and verification processes and procedures. Throughout the year the Postal Service implemented various actions in a concerted effort to improve compliance. As a result, the Postal Service's level of compliance with these key controls increased toward the end of the fiscal year compared to the first half of the fiscal year, helping to ensure that customers were appropriately charged and revenues were recognized.
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 more training to business mail entry and *PostalOne!* Help Desk employees. Management generally agreed with the findings and recommendations.
Staten Island and Brooklyn Business Mail Entry Units Mail Verification Procedures	MS-AR-10-005	8/30/2010	None	We identified multiple mail verification issues at the Staten Island Business Mail Entry Unit (BMEU) and an issue at the Brooklyn BMEU related to the MERLIN Selection Matrix. Management agreed with the findings and recommendations.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Fiscal Year 2010 PostalOne! Outage	FF-AR-10-205	8/5/2010	$355,107	The February 2010 *PostalOne!* outage impacted mail acceptance operations and revenue collection efforts nationwide. We determined the Postal Service was not adequately prepared to manually support operations during such an extended outage. Management agreed to update its *Postal One!* contingency plan to align with key financial controls.
Plant-Verified Drop Shipment Controls	MS-AR-10-001	2/9/2010	None	Controls were not adequate to prevent mailers from adding mail en route to the destination Postal Service facility and to ensure the Postal Service collects all revenues due from Plant-Verified Drop Shipment (PVDS). The report recommended the Postal Service weight verify all drop shipments, provide scales at PVDS areas, train employees and supervisor responsible for verifying or overseeing the verification of PVDS at destination facilities, and provide an electronic reporting solution to compare information at origin and destination. We resolved all but one recommendation through the resolution process. The remaining recommendation remains open pending December 2012 completion.

Appendix B: Monetary and Other Impacts

Monetary Impact

Finding	Impact Category	Amount
DMU Verification Procedures	Recoverable and Unrecoverable Revenue Loss[23]	$10.3 million

We calculated the revenue loss at DMUs by employing a stratified three-stage random sample of postage statements. The sample design allowed statistical projection of the amount of revenue loss over the 78-day period (April 27–July 13, 2011) of the review. See Appendix D for additional information regarding our sample design and projections.

Other Impact

Finding	Impact Category	Amount
DMU Verification Procedures	Revenue at Risk[24]	$1.8 million

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[23] Amount Postal Service is (or was) entitled to receive but was underpaid or not realized because policies, procedures, agreements, requirements, or good business practices were lacking or not followed. May be recoverable or unrecoverable. May apply to historical events or a future period (in the sense perceived future losses may be prevented by the implementation of a recommendation).
[24] Revenue the Postal Service is at risk of losing (for example, when a mailer seeks alternative solutions for services currently provided by the Postal Service).

Appendix C: Mail Verification Conditions

Condition	Revenue Loss	Other Impact
The length of the mailpiece exceeded the maximum letter standards of 11.5.	$197	None
We found seven metered mailpieces with missing rate markings through visual inspection of tray samples.	$249	None
The *Postal Service Qualification Report* had 18,670 mailpieces and the postage statement showed 16,561. The acceptance employee relied on a verbal statement from the mailer that the 2,109 mailpiece discrepancy involved spoiled pieces. We conducted an in-depth verification and found 767 additional mailpieces.	$133	None
Mailer claimed automation letter discount, but the sample mailpieces we tested with a manual template and on MERLIN failed the barcode location verification.	$5,402	None
Clerk overwrote MERLIN $78,860 scheme error without verifying its validity.	None	$78,860 – revenue at risk
The clerk overrode a MERLIN presort verification failure without verifying whether the errors were valid.	None	$1,597,240 – revenue at risk
The mailer's mailpiece count was approximately 6.1 percent less than what the auditors computed on PS Form 8040.	$6,230	None
Full trays of automation letters were banded (not allowed for discount).	$757	None
Verification Results Storage Record is not randomly selecting mail for verification at this continuous mailing site.	None	None

Condition	Revenue Loss	Other Impact
Although there was room in the trays, the 5-digit and 3-digit trays did not contain the required minimum number of pieces to obtain the automation rate. As a result of our audit, DMU personnel obtained a waiver from the district business mail entry manager to allow this mailer to present mail in this manner for future mailings.		$143,479 – revenue at risk
The mailer's mailpiece count was about 6.6 percent less than what the auditors computed.	$2,315	None

<p style="text-align:center;color:blue;">**Appendix D: Statistical Sample Design and Results**</p>

Audit Universe

The audit universe consisted of all postage statements tendered over the 78-day period, at the 250 highest First-Class and Standard Mail revenue DMUs for FY 2010. This segment represented approximately 80 percent of all DMU revenue for FY 2010. The total number of postage statements in the sampling universe was 190,184. We obtained the universe information from *PostalOne!.*

Sample Design

We decided resources available would allow us to visit 30 randomly selected DMUs over the 78-day period. We divided the chosen DMU population of 250 into two strata. Stratum 1 consisted of 63 DMUs for which the revenue in FY 2010 was $100 million or greater. Stratum 2 consisted of the remaining 187 DMUs. We decided to sample 19 of the DMUs in Stratum 1 and 11 of the DMUs in Stratum 2. We followed identical steps within each stratum.

We used Excel's random number generator to select the DMUs from each stratum. This process represented the first stage of the three-stage random selection process. For each randomly selected DMU, we scheduled a site visit on a randomly selected day within the 78-day period. This process represented the second stage of the three-stage random selection process. Finally, on the day of each site visit, we randomly selected as many mailings for review as we were able to accomplish. During meetings with Postal Service officials, management expressed concern regarding our methodology we used to select mailings for review. We believe our methodology is effectively random and satisfies the applicable statistical theory of our sample design. We reviewed 162 postage statements associated with the randomly selected mailings over the 78-day period.

For each randomly selected mailing, we independently verified the mailing using the Postal Service standard required mail verification procedures for the type of mailing at hand. We recorded the amount of additional postage due, if any, for each of the randomly selected and verified mailings. For our purposes, the additional postage due, and uncollected, represented revenue loss.

Statistical Projections of the Sample Data

For the purpose of statistically projecting the total revenue leakage, for the DMU population over the 78-day period, we used the "Three-Stage Unrestricted" variable appraisal module of RAT-STATS, a statistical analysis software package developed and maintained by the Health and Human Services OIG. We did this for the strata individually and then combined the projections of the individual strata into an overall projection for the 250 DMUs in the population. We performed this final step using the "Stratified Multistage" variable appraisal module of RAT-STATS.

Based on projection of the sample results, the point estimate of the revenue leakage for the 250 DMUs over the 78-day period was $45,058,730. The lower bound of a two-sided 95 percent confidence interval was -$8,083,480, and the upper bound of a two-sided 95 percent confidence interval was $98,200,940. Since we directly measured $15,285 of revenue leakage in our sample, this amount becomes the real world lower bound.

Since the sampling precision achieved at the 95 percent confidence level does not meet our internally imposed standard of +-20 percent relative or better, we opt to conservatively report the lower bound of a one-sided 90 percent confidence interval as the monetary impact for this audit. RAT-STATS calculated this amount to be $10,310,906; therefore, we can be 90 percent confident that the revenue leakage in the population over the 78-day period is *at least* $10,310,906. We did not expand our sample size to improve the sample precision because this would have required significant additional resources and we do not believe our findings or recommendations would have been materially affected.

By similar reasoning, we can be 90 percent confident the revenue leakage in the population, over the 78-day period, is *no greater than* $79,806,554.

Appendix E: Management's Comments

PRITHA MEHRA
VICE PRESIDENT
MAIL ENTRY & PAYMENT TECHNOLOGY

UNITED STATES
POSTAL SERVICE

January 5, 2012

Sharian B. Holland
Acting Director, Audit Operations
1735 North Lynn Street
Arlington VA 22209

SUBJECT: Mail Verification Procedures at Detached Mail Units (Report Number MS-AR-12-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. We are in agreement with the recommendation(s) and monetary impact of the report.

We recognize that mail preparation has become more complex and field acceptance management and employees must closely supervise the activities at detached mail units to ensure that policies and procedures are being followed. We do note that management has Commercial Mail Acceptance transformation initiatives being designed to automate certain verification processes which will address some of the issues noted in this report. These initiatives include eInduction, seamless acceptance, and enhancements to BMEU acceptance.

The subject report and this response does not contain any information related to potential security vulnerabilities that, if released, could be exploited and cause substantial harm to the U.S. Postal Service.

We do not believe that this report contains any proprietary or business information prohibiting disclosure pursuant to the Freedom of Information Act.

If you have any questions or comments regarding this response please contact Deborah Cumbo, Mail Entry at (202) 268-6393.

Pritha Mehra

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Mail Verification Procedures at Detached Mail Units
Audit Report No. **MS-AR-12-DRAFT**
Project No. **11RG013MS000**

We recommend the Vice President Mail Entry & Payment Technologies to:

1] Review automation efforts to date to identify improvements that can be made in the interim while mailers continue to implement Intelligent Mail barcode technologies.

Management Response/Action Plan:
Management agrees that additional tools are needed to increase mailer participation in use of Intelligent Mail Barcodes and Full-Service. Efforts are in process to develop an on-line tool (Intelligent Mail for Small Business) that will enable small business mailers to upload address files for matching with delivery point validation, Move Update, Intelligent Mail piece and tray barcodes and sortation.

Additionally, eInduction will provide an automated solution to replacement of the hard copy 8125 which will ease the burden on both the acceptance and induction site to perform certain verifications. eInduction is expected to be deployed by January 2013. Seamless acceptance is being designed to automate acceptance and verification processes. Through the use of active and passive scanning from the Postal Service's visibility systems and mail processing equipment (MPE), Seamless Acceptance will reconcile the containers scanned by Postal Service against a mailer's electronic documentation through a link to the eInduction system. Pieces and handling units will be reconciled against mailer's electronic documentation through the SASP system. Manual verifications for seamless mailings will be limited to sampling via Full Service IMD scanners at points of mail induction.

Target Implementation Date: June 2013 for all solutions

Responsible Official: Marty McGuire, Mail Entry

2] Continue ongoing mail verification training efforts while DMU employees continue to use manual mail verification processes.

Management Response/Action Plan:
Management continues to conduct field training based on identified needs. Currently, bi-weekly telecons are conducted with field sites during which SOX compliance issues are emphasized and discussed. Additional training is routinely conducted for price and standard changes.

Further, we are working closely with SOX management office to develop specialized Standard Operating Plans and Job Aids for acceptance and verification procedures. As SOPs are finalized, training is provided to field DMU employees and field BME management to ensure compliance with acceptance and verification procedures.

Target Implementation Date: This will be an ongoing effort through January 2013

Responsible Official: Marty McGuire, Mail Entry

3] Enhance automated systems to notify managers when acceptance employees override Mail Evaluation Readability Lookup INstrument results.

Management Response/Action Plan:
Management agrees to develop the process to report overwrites of MERLIN verification errors.

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Target Implementation Date: Any changes to *PostalOne!* must be coordinated with the *PostalOne!* release schedule. Currently scope for future release is extremely full. Changes for reporting overwrites will be targeted no later than the June 2013 release.

Responsible Official: Marty McGuire, Mail Entry

4]: Develop and implement automated tools that managers can use to monitor and evaluate detached mail unit staffing and scheduling.

Management Response/Action Plan:

Management agrees with the need for field staffing tools for business mail acceptance, which is currently under development. Additional issues raised in this report will be communicated to Area management for action with field mail acceptance management to more closely monitor staffing needs at detached mail units.

Target Implementation Date: Expected implementation will be June 2013

Responsible Official: Marty McGuire, Mail Entry