OFFICE OF
INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Controls over Nonprofit Mailing Authorization

Management Advisory Report

March 17, 2014

Report Number MS-MA-14-002

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

March 17, 2014

Controls over Nonprofit Mailing Authorization

Report Number MS-MA-14-002

BACKGROUND:

Congress authorized reduced Standard Mail rates for certain categories of nonprofit organizations that meet specific eligibility rules. These reduced rates average about 40 percent less than comparable Standard Mail rates. Eligible nonprofit mailers include religious, educational, and philanthropic organizations. About 350,000 mailers are authorized to use Nonprofit rates. Nonprofit Standard Mail revenue was about $1.8 billion in fiscal year (FY) 2013. Six percent of the 6,639 new nonprofit mail applications the U.S. Postal Service received in FY 2013 were denied because of reasons including that an organization failed to prove their nonprofit status.

Organizations apply for nonprofit mailing rates by submitting Postal Service Form 3624, Application to Mail at Nonprofit Standard Mail Rates, at the Post Office where they plan to enter mail, or electronically through the Postal One! system. Applicants must provide supporting documentation, which may include evidence of nonprofit status. The Postal Service Pricing and Classification Service Center is responsible for reviewing applications and authorizing or denying organizations for nonprofit Standard Mail rates eligibility.

Our objective was to determine whether the Postal Service applied its policies and procedures consistently when approving and denying these applications in compliance with applicable laws and regulations.

WHAT THE OIG FOUND:

The Postal Service consistently applied its policies and procedures when approving and denying nonprofit mailer applications in compliance with applicable laws and regulations. Pricing and Classification Service Center staff reviewed applications and supporting documents to ensure each applicant provided sufficient evidence that it met one of the categories to qualify it for Nonprofit rate eligibility.

We reviewed 170 approved and 198 denied nonprofit mail applications from FYs 2010 through 2013 and found applications were approved when they met all of the Postal Service criteria, such as documenting proof of nonprofit status. Applications were denied when they failed to meet one or more of the criteria, such as the requirement to respond to requests for additional information. The Pricing and Classification Service Center used the same evaluation process to approve and deny applications.
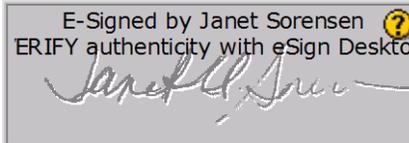
WHAT THE OIG RECOMMENDED:

Based on the results of our review, we are not making recommendations.

Link to review the entire report

March 17, 2014

MEMORANDUM FOR: CYNTHIA SANCHEZ-HERNANDEZ
                       VICE PRESIDENT, PRICING

E-Signed by Janet Sorensen
ERIFY authenticity with eSign Deskto

FROM: Janet M. Sorensen
                        Deputy Assistant Inspector General
                         for Revenue and Business

SUBJECT: Management Advisory Report – Controls over Nonprofit
                        Mailing Authorization
                        (Report Number MS-MA-14-002)

This report presents the results of our review of Controls over Nonprofit Mailing
Authorization (Project Number 13RG038MS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any
questions or need additional information, please contact Joshua M. Bartzen, acting
director, Sales and Marketing, or me at 703-248-2100.

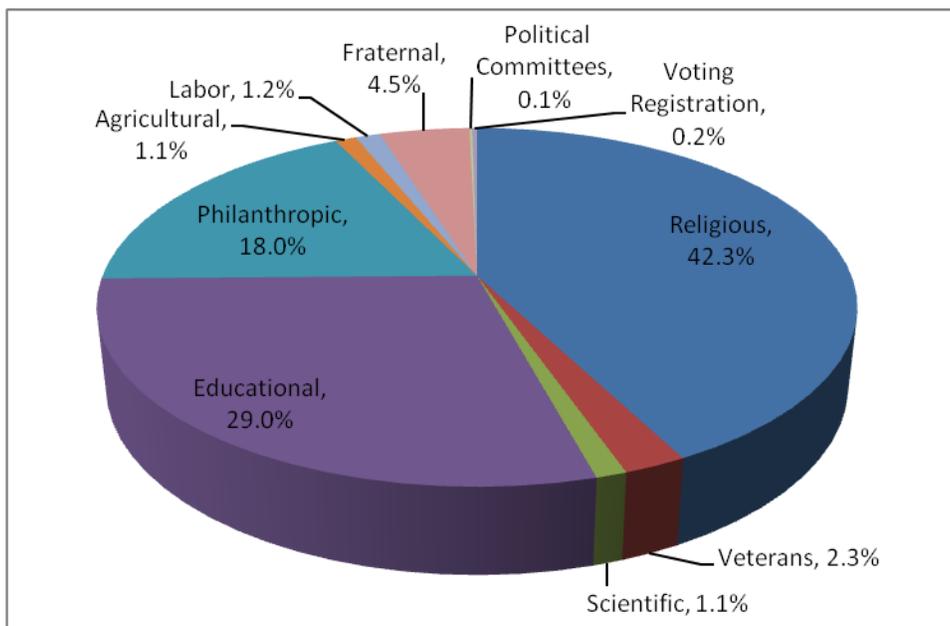Attachment

cc: Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction

This report presents the results of our self-initiated review of Controls over Nonprofit Mailing Authorization (Project Number 13RG038MS000). Our objective was to determine whether the U.S. Postal Service applied its policies and procedures consistently when approving and denying nonprofit mailer authorizations in compliance with applicable laws and regulations. See Appendix A for additional information about this review.

Nonprofit Standard Mail rates average about 40 percent less than comparable Standard Mail rates. About 350,000 mailers were authorized to use Nonprofit rates in fiscal year (FY) 2013. Eligible nonprofit mailers include religious, educational, and philanthropic organizations.[1] See Figure 1. Qualified political committees and voter registration officials are also eligible without regard to their nonprofit status.

Figure 1: Distribution of Authorized Organizations by Category

Source: Postal Service Pricing and Classification Service Center (PCSC) data, September 30, 2013.

In determining whether an applicant will be authorized to mail using nonprofit Standard Mail rates, the Postal Service reviews applications and supporting documents, such as articles of incorporation or charters, to ensure the applicant is organized and operates for a qualifying purpose. In addition, where appropriate, the organization must provide documentation supporting its nonprofit status, such as a tax exemption letter from the

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[1] 39 U.S.C. § 3626.

IRS.[2] The PCSC is responsible for reviewing and approving or denying mailer applications for nonprofit Standard Mail rates. In FY 2013, the PCSC received about 6,639 new nonprofit mail applications and denied about 6 percent of them, for reasons such as the organization's failure to prove its nonprofit status.

Conclusion

The Postal Service consistently applied its policies and procedures when approving and denying nonprofit mailer applications in compliance with applicable laws and regulations. PCSC staff reviewed applications and supporting documents to ensure each applicant provided sufficient evidence that it met one of the categories to qualify it for Nonprofit rates. We reviewed 170 approved and 198 denied nonprofit mail applications from FYs 2010 through 2013 and found applications were approved because they met all of the Postal Service criteria, such as documenting proof of nonprofit status. Applications were denied for failing to meet one or more of the criteria, such as failing to respond to requests for additional information. The PCSC used the same process to evaluate approved and denied applications.

Nonprofit Application Authorization

The Postal Service consistently authorized nonprofit mailing rates in compliance with applicable laws and regulations.[3] PCSC staff reviewed applications and supporting documents to ensure that each applicant provided sufficient evidence that met one of the qualifying categories and, when appropriate, that established the organization's nonprofit status.
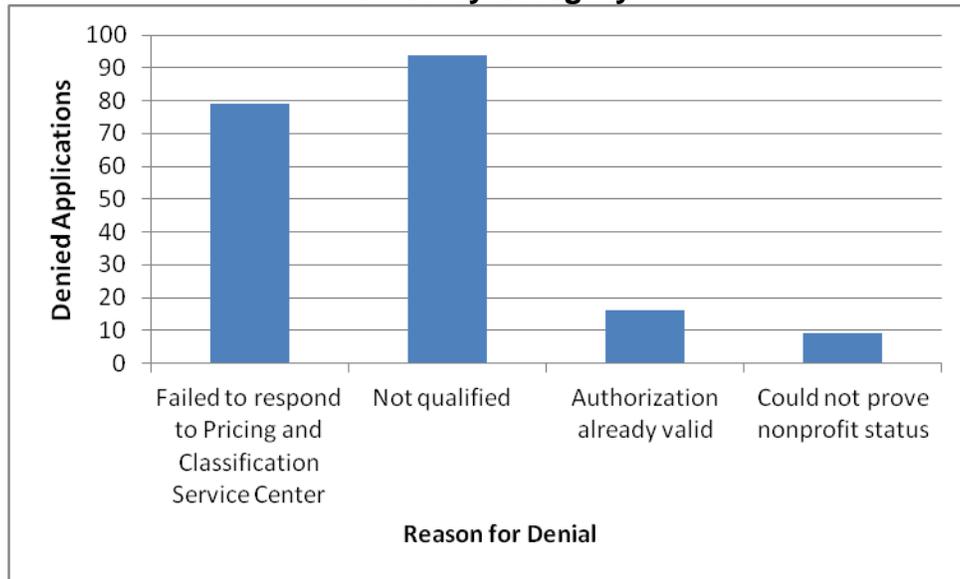
We sampled and reviewed 368 nonprofit mail rate applications from FYs 2010 through 2013. We judgmentally selected and reviewed 170 approved applications and found sufficient evidence supporting their eligibility for Nonprofit rates. We randomly selected and reviewed 198 denied applications. Of these, 47 percent (94) were denied because the applicants were not qualified according to Postal Service criteria. The PCSC denied the other 53 percent of applications for reasons including the following, as Figure 2 illustrates:

- The organization could not prove its nonprofit status.
- The organization failed to respond to PCSC requests for additional information.
- The organization had already received authorization.

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[2] The criteria for nonprofits does not require nonprofit tax status from the IRS, but proof of that designation can be submitted to the Postal Service to help document the organization's nonprofit status. There are circumstances where an organization might meet IRS nonprofit standards, but not qualify for nonprofit mailing privileges.
[3] 39 U.S.C. § 3626 and 39 CFR 111.1.

**Figure 2: Distribution of Nonprofit Applications
Denied by Category**

Source: U.S. Postal Service Office of Inspector General (OIG) Analysis of Postal Service
PCSC data (FYs 2010 - 2013).

Management's Comments

The Postal Service informally reviewed a discussion draft of this report and had no
comments or concerns.

Appendix A: Additional Information

Background

The U.S. Congress authorized reduced mailing rates[4] for nonprofit mailers and determined the categories of organizations eligible for the rates in 1951. Nonprofit Standard Mail rates average about 40 percent less than comparable commercial rates. Nonprofit Standard Mail revenue was about $1.8 billion in FY 2013. In order to qualify as a nonprofit mailer, an organization must fall under one of the following eight categories: religious, educational, scientific, philanthropic, agricultural, labor, veterans, or fraternal. Voting registration officials and national and state political committees may be qualified to mail using Nonprofit rates without regard to their nonprofit status. There were about 350,000 mailers authorized to use Nonprofit rates in FY 2013.

An organization applies for nonprofit mailing rates by submitting a Postal Service Form 3624, Application to Mail at Nonprofit Standard Mail Rates, at the Post Office where the organization plans to enter mail. Alternatively, organizations may apply for nonprofit mailing rates electronically through the Postal One! system. In either case, applicants must provide supporting documentation, which may include formative papers such as articles of incorporation, evidence of nonprofit status, and documents concerning operations. The PCSC is responsible for approving or denying applications for nonprofit mail rates, regardless of submission method. When mailers submit nonprofit mailings to the Postal Service, field unit staff use PostalOne! to verify that they are authorized to use Nonprofit rates and then records mailer activity to track volumes.

Objectives, Scope, and Methodology

Our objective was to determine whether the Postal Service applied its policies and procedures consistently when approving and denying nonprofit mailer applications in compliance with applicable laws and regulations. To accomplish our objective, we reviewed laws, regulations, policies, and procedures concerning the Postal Service's processing of nonprofit mail rate applications. We also interviewed PCSC personnel to understand the procedures and controls for determining mailer eligibility for Nonprofit rate authorization. We sampled and reviewed 368 nonprofit mail rate applications from FYs 2010 through 2013. Of these, we randomly selected 198 applications denied by the PCSC and evaluated them to determine whether applicable policies and procedures were consistently followed. We also judgmentally selected 170 applications approved by the PCSC to evaluate processing consistency with the denied sample.

We conducted this review from September 2013 through March 2014 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on March 12, 2014.

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[4] 39 U.S.C. § 3626.

We assessed the reliability of PostalOne! data by testing samples of mailer applications for nonprofit mail authorization and reviewing related controls. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not conduct any audits related to the objective in the past 3 years.