



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

**Cancelled Postage Statements –
St. Paul, MN Business Mail Entry Unit**

Management Advisory Report

March 22, 2012

Report Number EN-MA-12-001



OFFICE OF
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GENERAL**
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

March 22, 2012

Cancelled Postage Statements – St. Paul, MN Business Mail Entry Unit

Report Number EN-MA-12-001

IMPACT ON:

Proper processing of business mail postage statements impacts U.S. Postal Service revenue.

WHY THE OIG DID THE AUDIT:

Our objective was to determine whether postage statements were properly processed at the St. Paul, MN Business Mail Entry Unit (BMEU).

WHAT THE OIG FOUND:

Unit management did not follow required procedures for processing postage statements at the St. Paul BMEU. Specifically, unit personnel were instructed to cancel postage statements that could not be finalized before local end-of-day (EOD) closeout time. We consider \$5.7 million related to these statements to be revenue at risk. In addition, management did not have a reconciliation process in place to monitor and ensure all statements were re-entered. The Postal Service has an increased risk of revenue loss due to postage statements not being properly processed.

The Business Mail and Payment Technologies group initiated corrective action by issuing guidance in the December 22, 2011 *Business Mail Acceptance Newsletter*. The guidance instructed unit personnel not to cancel postage statements simply because the unit would be unable to finalize the

statement and release the mail before local EOD closeout time.

WHAT THE OIG RECOMMENDED:

We recommended management develop and implement a process to periodically monitor cancelled postage statements to ensure cancellations are appropriate and in accordance with Postal Service policy.

WHAT MANAGEMENT SAID:

Management agreed with the finding and recommendation. Management is no longer cancelling postage statements prior to EOD reconciliation. In addition, the business mail entry supervisor for the Northland District will review late postage statement reporting and EOD reconciliation on a daily basis to ensure compliance. Lastly, management will conduct a process review by March 30, 2012, to ensure the monitoring process is still in place and supports compliance with Sarbanes-Oxley controls.

AUDITORS' COMMENTS:

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

[Link to review the entire report](#)



March 22, 2012

MEMORANDUM FOR: SLYVESTER BLACK
VICE PRESIDENT, WESTERN AREA OPERATIONS

A rectangular box containing a handwritten signature in black ink that reads "Darrell E. Benjamin, Jr." with a yellow question mark icon in the top right corner.

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

SUBJECT: Management Advisory – Cancelled Postage Statements –
St. Paul, MN Business Mail Entry Unit
(Report Number EN-MA-12-001)

This report presents the results of an issue we identified at the St. Paul, MN Business Mail Entry Unit during our review of business mail acceptance controls (Project Number 12RG009EN001).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Sean D. Balduff, acting director, Retail, Business, and International, or me at 703-248-2100.

Attachments

cc: Pritha N. Mehra
Steven R. Phelps
Corporate Audit and Response Management

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Introduction

This report presents the results of our review of postage statement compliance at the St. Paul, MN Business Mail Entry Unit (BMEU) (Project Number 12RG009EN001). The objective of our review was to determine whether postage statements were properly processed at the St. Paul BMEU. This review was self-initiated and addressed financial and operational risks. See [Appendix A](#) for additional information about this review.

Management designed business mail acceptance (BMA) controls¹ to confirm that all revenue is collected and recognized for business mail transactions on the day mail is received. Postage statement processing is one of the key Sarbanes-Oxley (SOX)² financial controls. The timely recognition of business mail revenue ensures that the U.S. Postal Service's financial statements accurately reflect operating results.

Conclusion

We determined, through discussions with unit personnel and review of transactions, that postage statements were improperly processed and cancelled.³ As a result, the Postal Service has an increased risk of revenue loss. We consider \$5.7 million related to these statements to be revenue at risk (see [Appendix B](#) for Other Impact).

Cancelled Postage Statements

The unit did not follow required procedures for processing business mail postage statements. Specifically, unit management instructed employees to cancel postage statements still listed on the *PostaOne!* Dashboard⁴ at the end-of-day (EOD) and re-enter the statements after daily closeout time to avoid appearing on the *Late Postage Statement Report*.⁵ Additionally, management did not have a reconciliation process in place to ensure all inappropriately cancelled statements were re-entered in *PostaOne!*. The Postal Service has an increased risk of revenue loss due to the improper processing of postage statements. In addition, the timely recognition of business mail revenue ensures Postal Service financial statements accurately reflect operating results.

¹ BMA controls reviewed included mail check-in, verification, placarding, postage statement processing and finalization, and EOD reconciliation.

² The Postal Accountability and Enhancement Act of 2006 requires the Postal Service to comply with Section 404 of the SOX Act of 2002.

³ A postage statement is typically cancelled because of a transaction error, mailing recall, or mail not presented. Acceptance employees are required to contact the mailer before cancelling the statement. Postal Service policy does not specifically state how to handle statements that are cancelled for inappropriate reasons.

⁴ The Dashboard is a portal on *PostaOne!* for accessing mailing information. Mailing information and/or postage statements can be submitted to the Dashboard via manual entry by acceptance employees or electronic entry by mailers.

⁵ Unit performance scores are negatively impacted when postage statements are processed after EOD closeout time and appear on the *Late Postage Statement Report*.

From October 1 through December 27, 2011, acceptance clerks at the unit cancelled 1,916 of 34,734 postage statements in *PostalOne!*, totaling \$5.7 million. Unit management could not identify statements that were cancelled as a means to avoid appearing on the *Late Postage Statement Report* versus those cancelled for valid reasons. Therefore, we consider the entire \$5.7 million related to these statements to be revenue at risk.

We notified the Postal Service Mail Entry and Payment Technologies group of this matter during our review, and they initiated corrective action by issuing guidance in the December 22, 2011, *BMA Newsletter*. Unit personnel were instructed not to cancel postage statements simply because the unit would be unable to finalize the statement and release the mail before local EOD closeout time.⁶ The newsletter also indicated such action is prohibited and considered a serious SOX infraction.

Recommendation

We recommend the vice president, Western Area Operations:

1. Develop and implement a process to monitor cancelled postage statements to ensure cancellations are appropriate and in accordance with Postal Service policy.

Management's Comments

Management agrees with the finding and recommendation and is no longer cancelling postage statements prior to EOD reconciliation. In addition, the business mail entry supervisor for the Northland District will review late postage statement reporting and EOD reconciliation on a daily basis to ensure compliance. Lastly, management will conduct a process review by March 30, 2012, to ensure the monitoring process is still in place and supports compliance with SOX controls.

See [Appendix C](#) for management's comments in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General considers management's comments responsive to the recommendation and corrective actions should resolve the issue identified in the report.

⁶ Handbook DM-109, *Business Mail Acceptance*, Section 3-4.4, March 2010 and the *BMA Newsletter*, December 22, 2011.

Appendix A: Additional Information

Background

Business mail is one of the most significant revenue sources for the Postal Service. The Mail Entry and Payment Technologies group is responsible for implementing policies surrounding the acceptance of business mailings⁷ at more than 2,750 locations, 1,900 of which are in postal facilities and 850 of which are at mailer plants. This group oversees the processing of more than 13.7 million business mailings annually, which represents approximately 73 percent of the total Postal Service mail volume.

Customers presenting business mailings are required to check in with an acceptance employee and provide all required documentation, including postage statements. This ensures that no unidentified mailings are found in the acceptance unit or on the loading dock without an acceptance employee's knowledge. All mailings must be staged⁸ and clearly marked/placarded to identify the status or phase of the mailing within the BMA process. Postal Service employees are required to place mailings that are not properly checked in on hold and enter the status of the mailing into *PostalOne!*. BMEU employees are required to immediately notify the mailer and BMEU management about any mailings that are held. BMEU management conducts an EOD reconciliation to monitor the resolution of such mailings. In addition, any cancellation of a postage statement typically occurs as a result of a transaction error, a mailing recall, or mail that was not presented. Acceptance employees are required to contact the mailer before cancelling the statement.

Objective, Scope, and Methodology

The objective of our review was to determine whether postage statements were properly processed at the St. Paul BMEU. To accomplish our objective, we reviewed existing policies and procedures related to BMA and interviewed key Postal Service officials. We conducted observations from December 5-9, 2011, at the St. Paul, MN BMEU and performed an in-depth analysis of its key financial controls. We compared daily acceptance activities to procedural manuals and BMA flowcharts.

We conducted this review from October 2011 through March 2012, 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 February 22, 2012, and included their comments where appropriate.

We assessed the reliability of data through analytical tests and discussions with Postal Service managers and determined that the data were sufficiently reliable for the purposes of this report.

⁷ Business mailings typically enter the mailstream through BMEUs or detached mail units (DMUs).

⁸ Staged means mail is properly prepared and labeled for the next processing phase.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Mail Verification Procedures at Detached Mail Units</i>	MS-AR-12-002	1/12/2012	\$10.3 million	The Postal Service accepted mailings that did not have sufficient postage or did not meet Postal Service specifications. Management concurred with the recommendations and monetary impact and agreed to develop customer online support and field staff tools, continue field staff training, and develop a process of notifying managers of override Mail Evaluation Readability Lookup INstrument results.
<i>Fiscal Year 2010 Financial Installation Audit – Business Mail Entry Units</i>	FF-AR-11-006	1/20/2011	None	The Postal Service did not comply with key financial reporting controls for BMA and verification processes and procedures. Throughout the year the Postal Service implemented various actions 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. Management did not specifically agree or disagree with the conclusions in the report.

<p><i>Business Mail Entry Units Mail Verification Procedures</i></p>	<p>MS-AR-10-005</p>	<p>8/30/2010</p>	<p>\$55 million</p>	<p>We identified multiple mail verification and Mailing Evaluation and Readability Lookup INstrument issues at two BMEUs. Management agreed with the findings and recommendations.</p>
<p><i>Plant-Verified Drop Shipment Controls</i></p>	<p>MS-AR-10-001</p>	<p>2/9/2010</p>	<p>None</p>	<p>Controls were not adequate to prevent mailers from adding mail en route to the destination Postal Service facilities and to ensure the Postal Service received all revenue due from drop shipments. Plant-Verified Drop Shipment mailers can add mail en route, after verification at the BMEU, DMU, or other origin location, but before it reaches the destination Postal Service facility. As a result, the Postal Service is at risk of significant revenue loss. Management concurred with two of four recommendations and is developing training for verification employees at destination drop shipment locations and agreed to update the drop shipment criteria.</p>

Appendix B: Other Impact

Finding	Impact Category	Amount
Cancelled Postage Statements	Revenue at Risk ⁹	\$5,724,713

⁹ 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: Management's Comments