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U.S. POSTAL SERVICE

Stronger Mail Acceptance Controls Could Help Prevent Revenue Losses

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June 25, 1996

The Honorable John M. McHugh
Chairman, Subcommittee on the Postal Service
Committee on Government Reform and Oversight
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we review the Postal Service's controls over postage paid on presorted/barcoded mailings submitted by business customers. As agreed with the Subcommittee, we evaluated the current system of controls for such mailings to assess whether those controls reasonably ensure that mailer-claimed discounts are granted only when earned.

Mailers compute the postage they owe on each bulk business mailing. Sometimes, the mailing does not qualify for the postage discount claimed. To guard against accepting improperly prepared mailings, Postal Service bulk mail acceptance clerks are supposed to verify the accuracy of bulk business mailings. When mail with preparation errors is accepted into the mailstream at a presort and/or barcode discount rate, the Postal Service incurs a cost. This cost is in the form of higher processing expenses because the Postal Service must then do work it has already, in effect, paid mailers to do through discounted postage rates. In fiscal year 1994, according to Postal Service data, almost one-half of the Service's total mail revenue of $47.7 billion was from bulk business mail.

The Postal Service recognizes the need to have reasonable assurance that its bulk business mail operation adequately protects the Service from postage revenue losses. Toward that end, in 1989 and 1990, the Postal Service established a control system designed to give it such assurance. That assurance is dependent on the control system operating as designed, including the production of certain information that management determined was needed for monitoring and evaluating the effectiveness of the control system and making changes as appropriate.

As described in the Postal Service's manuals, the control system requires that

- presort and barcode mail verifications, including supervisory reviews, be done and documented;

- mailings resubmitted following a failed verification be reverified to ensure that the errors are corrected; and
- the results of verifications, including supervisory reviews, be regularly reported to specific management levels, including Postal Service headquarters.

Results in Brief

In 1989 and 1990, to address what the Postal Service said was a "seat of the pants" approach to bulk mail acceptance, postal management put in place a system of controls designed to help ensure that all revenue from bulk business mail was being received. Although the control system reported catching errors totaling $168 million in fiscal year 1994, the system did not provide the Service with reasonable assurance that all significant amounts of revenue due from bulk business mailings were correctly identified and received because of the weaknesses discussed below.

First, during fiscal year 1994, as much as 40 percent of required bulk mail verifications were not performed. Additionally, supervisors did less than 50 percent of required follow-up verifications to determine the accuracy of clerks' work and identify training needs. Second, rejected mailings could be resubmitted and accepted into the mailstream without errors having been corrected or additional postage paid. Third, acceptance clerks were not given the tools they needed to determine, in an efficient and objective manner, whether the increasing volumes of mailer-applied barcodes met Postal Service technical standards designed to ensure that the barcodes could be "read" by the Service's automated equipment. Fourth, postal management was not provided, nor did it seek, information necessary to make informed decisions concerning the adequacy of bulk mail acceptance controls, staffing, and training at acceptance units.

The Postal Service's bulk business mail control system also lacked a mechanism for identifying how much revenue was being lost, overall, by the Service accepting improperly prepared mailings. Unless the Service has an accurate indication of the magnitude of the risk, it will be hindered in (1) making informed decisions about the management attention and dollar investment necessary to manage and minimize revenue losses and (2) assessing the effectiveness of initiatives to improve revenue protection controls.

The Postal Service's primary method of selecting bulk business mailings for in-depth verification results in more mailings selected for verification than the Service can realistically do. Further, its random selection of

mailings, without regard to the risk of potential revenue losses, may not result in the best use of available acceptance staff resources. Other federal agencies that collect revenues and have large verification operations, such as the Internal Revenue Service (IRS) and the Customs Service, have adopted more selective verification plans. We believe these plans could offer advantages over the Service's random selection because the plans target those cases for audit/inspection that historically have had a higher potential for error and monetary pay-off.

Although the Postal Inspection Service has long considered bulk business mail acceptance to be a high-risk activity, in the past, postal management has not devoted much attention to the adequacy of acceptance controls. Recently, however, managers have begun developing a new bulk business mail acceptance system and are taking steps that have the potential to improve bulk mail acceptance controls. The more significant steps include updating bulk mail acceptance handbooks, acquiring equipment to help acceptance clerks verify barcodes, and requesting field units to submit required reports on bulk mail verifications. In addition, the Service is exploring a risk-based approach for selecting mailings for in-depth verification and has created a new unit to help improve controls over revenue. The Service expects to have almost all of its new bulk mail acceptance system in place by later this year or early calendar year 1997.

In response to the control issues raised in this report, we have included a number of specific recommendations. We believe these recommendations, incorporated into the Postal Service's bulk mail acceptance system, would help the Service better ensure that significant amounts of revenue are not being lost.

Background

According to Postal Service figures, of the 177 billion pieces of mail it processed in 1994, over 118 billion pieces, or 67 percent, were categorized as bulk business mail. In fiscal year 1994, the Service recorded revenue from bulk business mail of $23.1 billion—48.4 percent of its total mail revenue.

The Postal Service began offering postage discounts to mailers who presorted their mail in 1976, and in 1988 it began offering discounts for barcoding.[1] Presort and barcode discounts are to compensate mailers for performing work that otherwise would have to be done by the Postal

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[1]The Postal Service has postal business centers throughout its 85 districts that help mailers correctly presort and barcode their mail to qualify for discounts.

Service. In fiscal year 1994, about 34 percent of all First-Class mail and 92 percent of all third-class mail was discounted. According to Postal Service studies, the value of these discounts, during that year, totaled about $8 billion.

Most bulk business mail is entered at Business Mail Entry Units (BMEU) and Detached Mail Units (DMU), located throughout the Postal Service's 85 districts. DMUs are postal acceptance units located at mailers' mail preparation facilities. BMEUs are often located in or adjacent to mail processing plants, which are postal facilities that process mail for distribution to both local and national destinations. Bulk mail is also entered at many of the 40,000 post offices located throughout the country.

The Postal Service's mail acceptance clerks are the gatekeepers for accepting bulk business mail into the mailstream. Their job is to ensure, before mail enters the Postal Service's processing and distribution facilities, that mailers have prepared their mail in accordance with postal requirements and that discounts given for presorting and barcoding have, in fact, been earned. This is a difficult task given the time constraints and the wide variation in the way bulk business mail can be prepared and still meet Postal Service standards. If mail barcoded by a mailer is accepted by clerks but later fails to run on postal barcode sorters, the Postal Service incurs additional costs. This is because the Postal Service must rework the mail at its own expense even though it gave the mailer the barcoded rate to perform that work.

Bulk mail acceptance clerks are to perform cursory verifications on all mailings and in-depth verifications on randomly selected mailings. For every in-depth verification completed, mail acceptance clerks are required to prepare a written verification report (Form 2866). Postal facilities that receive 100 or more bulk mailings during a 4-week accounting period are to prepare a consolidated bulk mail acceptance report (Form 2867) documenting the results of their in-depth verifications. Summary reports of Forms 2867 are to be used by postal managers at various times to monitor, among other things, mail volume and revenue generated through the bulk mail acceptance system. Mail acceptance supervisors are to regularly verify the work of the clerks and report the results to postal management.

At Postal Service headquarters, management responsibility for the bulk business mail program resides with the Vice President of Marketing Systems, who reports to the Chief Marketing Officer and Senior Vice

President. Area Vice Presidents and district managers are responsible for ensuring that bulk mail acceptance activities conform to prescribed standards within their geographic spans of control.

Appendix I contains additional background information on the Service's bulk mail acceptance system.

Objective, Scope, and Methodology

Our objective in this report was to determine whether the current system of controls for accepting bulk business mailings reasonably assures the Postal Service that mailer-claimed discounts are granted only when earned. The scope of our review was limited primarily to the Service's BMEUs and DMUs, which account for the majority of the bulk mail accepted by the Service. We did not review controls at other acceptance units, such as post offices and branches.

To evaluate bulk mail acceptance controls, we (1) obtained and analyzed policies and procedures affecting bulk business mail acceptance; (2) visited 7 district offices located in 6 of 10 Postal Service area offices, and interviewed postal staff assigned to 17 business mail acceptance units in those districts; (3) collected and analyzed bulk mail acceptance reports that were available from 77 of 85 district offices for fiscal year 1994; and (4) interviewed various Postal Service managers and operations personnel at Postal Service headquarters and selected field locations. We selected field locations judgmentally primarily on the basis of management reports submitted by acceptance units.

We also interviewed officials from eight commercial bulk business mailers at the field locations visited. Additionally, we interviewed a Postal Service contractor who is studying the feasibility of utilizing risk assessment as a means of targeting high-risk mailings, and we interviewed and obtained written information from IRS and Customs Service officials about verification methods employed by their respective agencies. We interviewed the Executive Director of the National Association of Presort Mailers to obtain information on the presort industry's views regarding the Service's bulk mail acceptance system.

We obtained and analyzed documentation on proposed and ongoing Postal Service initiatives to improve bulk mail acceptance practices—although we did not evaluate the effectiveness of those initiatives because they are not yet fully implemented. Finally, we reviewed recent Postal Inspection

Service audits on bulk mail operations and discussed ongoing work with cognizant postal inspectors.

The work done for this report was part of our broader revenue protection survey that began in November 1993. In May 1994, as part of our revenue protection work, we reported on postage meter fraud.[2] For the most part, our review of the Service's bulk mail acceptance controls was done at Postal Service headquarters and selected field locations[3] between February 1995 and February 1996.

We did all of our work in accordance with generally accepted government auditing standards. We obtained written comments on a draft of this report from the Postal Service. Its comments are discussed at the end of this letter and are reprinted as appendix III. The Postal Service also provided additional technical comments on the draft, which were incorporated where appropriate.

Mail Acceptance Controls Do Not Reasonably Protect Against Significant Revenue Losses

It is inevitable that some revenue losses will occur in a program of this magnitude, and, as with any business enterprise, the risk of revenue losses must be weighed against the cost of establishing controls to prevent and detect such losses. The Postal Service, however, is hindered in its ability to make data-driven decisions about the adequacy of bulk mail acceptance controls. For example, the Service does not know the full extent of losses resulting from mailer preparation errors, and, furthermore, it has not sought to develop a means for identifying such losses. Rather, the Postal Service operates under the premise that since the Inspection Service and managers in charge of bulk mail acceptance have not reported large dollar losses, then such losses must not have occurred.

We did not attempt to estimate the extent to which revenue losses have occurred. However, we believe that sufficient evidence exists for the Postal Service to be concerned that substantial revenue losses may have occurred and gone undetected in the bulk business mail program.

In 1989 and 1990, to address what it acknowledged to be a "seat of the pants" approach to bulk mail acceptance, the Postal Service developed and implemented new management guidelines and verification

[2]Postage Meters: Risk of Significant Financial Loss but Controls Are Being Strengthened (GAO/GGD-94-148, May 26, 1994).

[3]We visited field locations in Connecticut, Kentucky, Minnesota, New Jersey, Pennsylvania, and Tennessee. We also did limited work at postal facilities in Colorado, Virginia, and Washington, D.C.

requirements designed to give it reasonable assurance that significant amounts of bulk mail revenue were not being lost. Those guidelines contained specific procedures and approaches for bulk mail acceptance and provided guidance to supervisors and managers for more analytical and effective management of acceptance employees.

Available documentation shows that during fiscal year 1994, the bulk business mail control system identified mailer preparation errors totaling $168 million.[4] However, the control system fell short of providing the Postal Service with the assurance it needs that significant amounts of revenue are not being lost in the bulk business mail program, as discussed below.

Bulk Business Mail Verifications Not Being Done in Accordance With Postal Service Requirements

Available Service documentation and our interviews with Service officials indicated that a large amount of bulk mail was accepted without proper verification. This occurred because clerks often skipped required in-depth verifications of bulk mail. Additionally, supervisors frequently failed to do required follow-up verifications of acceptance clerks' work. The Postal Service's failure to ensure that required verifications were done, and done properly, left it vulnerable to revenue losses.

Postal Service figures show that during fiscal year 1994, the Service accepted[5] over 16.2 million bulk business mailings of various sizes, classes, and levels of preparation nationwide.[6] Typically, over 50,000 mailings were accepted daily, and the mailings averaged about 6,900 mail pieces. According to Postal Service requirements, all of the mailings should have received a cursory review, and between 2.3 and 2.9 million should have received an in-depth verification. The Postal Service estimated that given the criteria for selecting mailings for in-depth verification, each acceptance location should have done in-depth verifications on 14 to 18 percent of the mailings received. However, available documentation shows that only about 1.7 million in-depth

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[4]Documentation on verification results was available for 77 of the Postal Service's 85 districts. Some documentation, however, included only a portion of a district's total activity. Eight districts did not compile reports on verification results.

[5]Acceptance functions, as of October 1995, were performed by 1,202 bulk mail acceptance clerks, 1,793 bulk mail acceptance technicians, and 470 part-time flexibles (clerks or mail handlers). According to a postal official, there has not been much fluctuation in the size of this workforce over the past several years. Additionally, some bulk mail was accepted at small post offices and branches that did not have acceptance clerks or technicians.

[6]A minimum of 500 pieces is required for a First-Class bulk business mailing, and 200 pieces for a third-class mailing.

verifications were done—about 60 to 75 percent of the required verifications. The remaining verifications were either not done or not documented.[7]

Available documentation for fiscal year 1994 shows that about 30 percent (23 of 77) of the postal districts reporting the results of their in-depth verifications did less than the estimated minimum-required 14 percent. Among the 77 districts, the percentage of mailings verified in-depth ranged from less than 2 percent to more than 30 percent.

Because acceptance procedures are not implemented uniformly throughout the United States, Postal Service managers and acceptance employees, as well as individuals in the business mail industry, said that some mailers "shop around" for the "best" acceptance unit. The Executive Director of the National Association of Presort Mailers cited inconsistencies among acceptance units as a concern of the mailing industry.

At almost half of the locations we visited, officials said that heavy workloads and unscheduled leave were frequently the reasons that required in-depth verifications were not being performed. They also said that balancing the goals of doing required mail verifications and improving customer service further complicated the situation. Some acceptance unit managers we spoke with said that the verification function is secondary to the Postal Service's goal of increasing the level of customer satisfaction. One said that this conflict makes it difficult to do all required verifications because mailings that fail verification are more likely to miss dispatch times and delivery schedules and are, therefore, likely to decrease customer satisfaction.

Another reason why some of the required verifications were not done is that the Postal Service allows acceptance clerks to skip verifications without higher level approval.[8] For example, certain mailings are designated by computer program software as requiring an in-depth verification. However, clerks can override the system and enter mail directly into the mailstream without performing the required verification. Two acceptance unit managers told us that such overrides frequently occur but that they do not keep records on the extent of this practice.

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[7]All postal units accepting 100 or more bulk mailings during a 4-week accounting period are required to report the results of their verifications to district offices.

[8]In May 1996, Postal Service officials stated they planned to notify acceptance units that override use would be restricted to supervisory personnel.

They said the overrides can generally be attributed to time pressures to "keep the mail moving."

Test mailings initiated by headquarters program officials also raised questions about the adequacy of the verifications. To develop some baseline information on the quality of bulk mail presented at entry units, the Inspection Service, at the request of headquarters bulk mail acceptance program officials, agreed to submit 36 test mailings at selected bulk mail acceptance locations. Each test mailing was to be submitted as a first-time mailing and therefore required to undergo an in-depth verification. Each test mailing was to consist of about 11,000 to 12,000 pieces of third-class mail—about 25 sacks—and each sack was to contain mail preparation errors that the inspectors believed should have easily been caught by acceptance clerks.

The Inspection Service completed only three test mailings before the project was discontinued at the direction of the headquarters bulk mail acceptance program officials. For the first test mailing, acceptance clerks at that location did not identify any of the errors. Moreover, although the erroneously prepared test pieces were presented as lower, third-class bulk rate mail, they were processed as First-Class mail—giving them priority over other third-class bulk business mailings. Test results were not any better for the next two mailings—the "planted" errors were not detected in the verification process.

Bulk mail acceptance program officials explained that they discontinued the test mailings because they provided little useful information for improving bulk mail acceptance controls. They believed audits of mailings deposited by mailers would provide better data to assess the types of preparation errors that are slipping through the acceptance process. Accordingly, program officials replaced the test mailings with audits of mailer-deposited mailings. These audits were led by bulk mail acceptance program officials. In February 1996, bulk mail acceptance program officials said that they were still reviewing data from the audits. They said about 930 mailings were audited at 8 locations in November and December 1995. The results of those audits were not available at the time of our review.

Required Supervisory Reviews Frequently Not Done

To help ensure that the required verifications are done, and done properly, the Postal Service requires that supervisors do at least four Quality Presort Verifications (QPV) every 4-week postal accounting period. The QPV entails

a supervisor rechecking an in-depth verification performed by a clerk to assess performance and also identify training needs. Analysis of Postal Service data showed, however, that such verifications are frequently either not done or not reported. For example, 67 of 74[9] postal districts reported doing fewer than the required number of verifications—including 4 that reported doing none. The 74 districts should have done at least 111,000 QPVs but reported doing only 44,000—about 40 percent.

The manager of one of the acceptance units we visited said QPVs are not being done because of a lack of supervisory staff and inadequate supervisory training on verification of mailing statements. The Service does not require supervisors directly responsible for BMEU and DMU activities to have any training relating to verification activities. In contrast, the Service requires that BMEU and DMU acceptance clerks receive 120 hours of classroom training. Our interviews at selected acceptance units showed that clerks had generally received the required training.

Failed Mailings Cannot Be Tracked to Ensure They Are Not Resubmitted and Accepted Without Correction

According to Service officials, under the current system of controls, previously failed mailings can enter the mailstream at a later time or at a different BMEU or some other Service acceptance unit without the errors being corrected. Acceptance clerks do not have a reliable way of tracking failed mailings to ensure that when those mailings are resubmitted for entry into the mailstream, they can be identified and rechecked.

The ability to identify and recheck previously failed mailings is necessary for clerks to verify that errors have been corrected. However, following a failed verification, mailings can lose their identity and be entered into the mailstream without the problems being identified, corrected, or additional postage being paid. To help guard against this, some acceptance locations were keeping informal records of failed mailings. Several bulk mail acceptance managers, however, believe that the effectiveness of such records, while better than nothing, is limited because the records are informal and not shared with other acceptance units.

Officials from the bulk mail acceptance program office and Inspection Service provided us the following examples, which demonstrate several ways that failed mailings can be entered into the mailstream without problems being corrected or without additional postage being paid by the mailer.

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[9]Data from 3 of the 77 reporting districts were insufficient for us to make a determination as to whether or not the required number of QPVs had been done.

- A mailing that failed verification at one location can enter the mailstream at another location. Mailers sometimes have permits to enter bulk mail at more than one location, which can work to their advantage since there is no exchange of information between locations concerning failed mailings. Overall, according to the bulk mail acceptance managers and postal inspectors we spoke with, the chance of a failed mailing being subjected to an in-depth verification at a second location is heavily weighted in the mailer's favor.
- A mailing that failed verification at one location during one shift can enter the mailstream at the same location during a different shift. Informal records of failed mailings may help prevent some of this, but not all acceptance locations we visited kept informal records of failed mailings.
- A failed mailing may be combined with another mailing, thus losing its original identity. It could then enter the mailstream without further verification.

Acceptance Clerks Lack the Tools To Do Effective and Objective Verifications

Since 1988, the Postal Service has granted postage discounts for mailer-barcoded mail. However, it has been slow to provide the tools necessary to ensure that when accepted, barcoded mail meets the Service's standards for claimed discounts. Generally, the Service's approach to ensuring accurate, machine-readable barcodes has been to work with bulk mailers to ensure that when the mail is prepared, it meets the Service's standards and requirements. Nevertheless, acceptance clerks are responsible for verifying that barcoded mail meets Postal Service standards.

With the volume of mailer-barcoded mail increasing yearly, the Postal Service recognized the need to try to ensure more standardization of mailer-applied barcodes. In the mid-1980s, the Postal Service developed the Coding Accuracy Support System (CASS) as a quality control measure that, among other things, is intended to help ensure that mailer-applied barcodes (1) are produced using current address information and (2) match the address printed on the mail piece. To encourage mailers to have their software CASS certified, in 1991 the Postal Service began allowing barcode rates only on mailings produced using CASS-certified software.

While the purpose of CASS is to ensure that mailers apply barcodes that reflect the right addresses, it does not ensure that the barcodes meet the Postal Service's technical standards for height, width, spacing, placement, and clarity and thus can be processed on the Service's automated barcode

sorters. Bulk mail acceptance clerks are to help ensure that mailer-applied barcodes meet the Postal Service's technical standards and can be read by its sorters. However, because of the precision required of machine-readable barcodes, acceptance clerks need special equipment, such as electronic scanners that can read barcodes, so that they can objectively verify the readability of barcodes. Postal management recognized the need for such equipment 5 years ago. For example, in a memo to regional managers in 1990, a senior Postal Service headquarters management official acknowledged that the Postal Service had a problem because it was accepting discounted, barcoded mail even though it did ". . . not have the mechanisms or capability in the Bulk Mail Acceptance Units or Detached Mail Units to properly verify the accuracy and readability of customer applied barcodes. . ."

Although the Postal Service has recognized the need for special equipment to verify barcodes, at the BMEUs and DMUs we visited, clerks and managers did not have such equipment. Officials at many of the BMEUs and DMUs we visited said they check barcode readability by visual inspection, which they sometimes referred to as "eyeballing." Many said they supplement visual inspections with such equipment as eyepieces, templates, and gauges. However, a cognizant official at Postal Service headquarters told us that such procedures are very time consuming.

Available data suggest that significant losses may be occurring because of unreadable barcodes. Through fiscal year 1992, the Postal Service systematically reported some data on the amount of barcoded mail that could not be read by its automated barcode sorters. The last report produced, which covered fiscal year 1992, showed that 7.4 percent of barcoded mail sent to its sorters could not be read.[10] In fiscal year 1992, the Service accepted 25.9 billion pieces of First-Class and third-class mailer-barcoded letter mail. If the rejection percentage for fiscal year 1992 were applicable to the mail pieces, the Service could have lost revenue ranging from $30.4 to $74.1 million on lower rate First-Class and third-class barcoded mail that could not be sorted on the Service's sorters—depending on the method (mechanized or manual) used for processing the rejected mail pieces.[11]

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[10]This percentage includes mail with Postal Service and mailer-applied barcodes—the report did not separate the two individually.

[11]Under the current rate structure, as much as 15 percent of a mailing may not be barcoded and still qualify for an automation discount. Under the classification reform initiative, scheduled to become effective July 1996, all mail pieces in a mailing must be barcoded to qualify for an automation discount.

During fiscal year 1994, the Service processed about 47.6 billion pieces of First-Class and third-class letter mail with mailer-applied barcodes, compared to 25.9 billion pieces just 2 years earlier—an 84-percent increase. The volume of all classes of barcoded mail processed by the Service had increased to about 70 billion by fiscal year 1995 and is expected to increase to more than 100 billion letters by fiscal year 1997 as the Postal Service offers greater incentives for barcoded mail under its mail classification reform initiative.[12]

Reliable Program Data Needed to Assess Adequacy of Controls and Related Risks Do Not Exist

Some of the key data needed by Postal Service management to assess the adequacy of controls and related risks do not exist. The current acceptance system does not produce information on (1) the extent to which improperly prepared mailings are entering the mail stream and the related revenue losses associated with improperly prepared mailings—including mailer-applied barcodes that do not meet the Postal Service's standards; and (2) the amount of rework required for the Postal Service to correct improperly prepared mailings that enter the mailstream. Postal managers told us they had no way of producing historical estimates of mailer errors and related revenue losses or the rework time associated with such errors.

Additionally, our work showed that reports that were to be prepared by bulk mail acceptance units and summarized for management were not always prepared or were missing key data, such as verification results. Managers at Postal Service headquarters and two district offices questioned the usefulness of the reports because of concerns about the completeness and accuracy of the data they contain. Information required in verification and acceptance reports, if properly gathered and used, could provide management at each level some measure of the effectiveness of bulk mail acceptance controls.

A key element of the control system put in place in 1990 was the requirement for a revised Bulk Mail Acceptance Report (Form 2867), which was to summarize the bulk mail acceptance and verification activities of BMEUS and DMUS. This report was designed to provide management at local, regional, and Postal Service headquarters levels with consolidated information that could be used to assess the adequacy of controls over the bulk business mail acceptance system and to monitor

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[12]On January 26, 1996, the Postal Rate Commission issued an opinion and recommendation (Docket No. MC95-1) on a Postal Service proposal to reclassify certain postage rates, which would, among other things, increase discounts for barcoded mail. The Postal Service Board of Governors accepted most of the Commission's recommendations, and the new rates are to become effective in July 1996.

related risks. For example, at the Postal Service headquarters level, a "critical factors report" was to be prepared to assess whether required verifications were being done, whether staffing of acceptance units was adequate, and to provide other necessary management information.

During our review, management officials at several levels said that the 1992 Postal Service reorganization significantly altered postal employees' views about bulk mail acceptance. Some district managers said they did not use information from the reports for decisionmaking purposes because the data had become unreliable. An area office official said that after the reorganization, the Postal Service ceased to regard bulk mail acceptance reports as mandatory. He stated that Postal Service headquarters did not drop the reporting requirements; rather, it never told the newly created district offices where to send the reports. Another area official said that following the 1992 restructuring, Postal Service headquarters conveyed to area offices that it no longer wanted to receive reports on bulk mail acceptance. Some area offices told their district offices that bulk mail management reports were no longer required. Postal Service headquarters program managers said that the information derived from reports that were received was of so little value that at one time they had considered eliminating them altogether.

When we asked each of the Postal Service's 85 district offices to provide us with all acceptance reports (Forms 2867) for fiscal year 1994, we found that 7 did not prepare consolidated acceptance reports for their districts. When we compared the bulk business mail revenue and volume reported on the reports with Postal Service headquarters' estimates of total bulk business mail revenue and volume, we found that the volume and revenue reported on the acceptance reports represented only about one-half the revenue and volume estimated by Postal Service headquarters.

Management was also not receiving other required information that would allow it to assess the adequacy of staffing and training at mail acceptance units. This missing information was to have been provided each quarter to management in Quality Presort Verification reports, which mail acceptance supervisors are required to fill out for consolidation and use at each successive management level, including Postal Service headquarters.

Postal Service Management Has Initiatives to Address Weaknesses in Bulk Mail Acceptance

Although the Postal Inspection Service has long considered bulk business mail acceptance to be a high-risk activity and has reported on a number of control weaknesses,[13] top postal management has not provided sustained attention to ensuring that adequate controls exist for accepting bulk business mail. Required information about bulk mail acceptance that was to help management oversee the program has not been received at Postal Service headquarters or some area offices since the 1992 Postal Service reorganization.

In the November 1995 issue of the Postal Bulletin, which is widely distributed to the mailing public and within the Postal Service, the Postmaster General announced that preventing revenue loss is a top priority of the Postal Service. He stated that "no business [including the Postal Service] can afford to lose thousands of dollars in uncollected revenue daily and expect to remain fiscally viable for very long." He announced that "efforts are under way to make improvements in mail acceptance and revenue collection areas." The Postmaster General's sentiments, especially as they apply to bulk mail acceptance, were repeated to us by numerous postal officials, including inspectors with first-hand knowledge of the weaknesses in the bulk mail acceptance system.

At the completion of our review, postal management was taking a number of actions that have the potential to significantly improve bulk mail acceptance. Postal officials told us that in October 1995, they notified all area and district offices that completing Forms 2867 was mandatory and that the forms were to be completed and forwarded to the Rates and Classification Center in Northern Virginia for summarization. In turn, summary reports are to be forwarded to Postal Service headquarters for information purposes. After the reports are reviewed, irregularities are to be referred back to the areas responsible for oversight.

However, officials stated in February 1996 that even with the renewed emphasis on the Forms 2867, compliance has been spotty. They noted, for example, that for accounting period 4 (December 9, 1995, to January 5, 1996), only 51 of 85 districts submitted Forms 2867 as required—fewer than the number we obtained for fiscal year 1994. The officials suspected that compliance has been incomplete because many area and district officials came into their jobs following the 1992 reorganization and did not know or understand the significance of bulk mail reporting. Postal Service

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[13]See appendix II for a summary of Inspection Service work and reports relating to control deficiencies in the bulk business mail program.

headquarters had not explained the significance. Postal officials attributed some of the problems now occurring with bulk mail acceptance to outdated manuals. Officials told us they have been working on a new manual to replace the old bulk mail acceptance manuals—DM102 and DM108. As an interim measure, officials told us that they planned to issue, in March 1996, laminated cards for bulk mail acceptance clerks to use that would include instructions on changes to bulk mail acceptance procedures that the Postal Service is ready to make immediately.

Additionally, the Postal Service has recently tested, and plans to soon deploy, what it believes to be a better tool for verifying barcodes—the Automated Barcode Evaluator (ABE). According to postal officials, ABE will assist acceptance clerks in evaluating barcoded mail pieces and objectively determining whether the barcodes meet Postal Service technical standards designed to ensure that the mail piece can be sorted on the Postal Service's automated processing equipment. In February 1996, Postal officials said they were in the process of purchasing about 260 ABEs for deployment to units that accept the most barcoded mail, and officials said they will later assess the need for additional ABEs.

The Postal Service was also testing equipment, called Barcoding, Addressing, Readability Quality Utilizing Electronic Systems Technology (BARQUEST), to help its customer service representatives identify bad barcodes and work with mailers to increase and improve their barcoding. BARQUEST is used to read and electronically store images of mail pieces rejected by the Postal Service's automated equipment at mail processing centers. It is also supposed to allow better monitoring of rejected mail and enable the Postal Service to know if mailers' barcoding problems have been resolved. As of February 1996, the Service had deployed BARQUEST to 55 sites. It expects to deploy BARQUEST to 77 more sites by September 1996 and to 55 more sites during fiscal year 1997.

Postal Service officials stated that to address the problem of failed mailings being resubmitted and accepted without correction, the Service is modifying bulk mail control system computer software to capture information, by mailer, on failed mailings. They stated this change should enable the Service to identify mailings that have failed verification and were not later identified as such when resubmitted—a situation Service officials believed would suggest that the mailer could have reentered the mail without correcting the errors.

In acknowledging the need for information on the extent of losses associated with accepting improperly prepared mailings, the Postal Service said in May 1996 that it would conduct an investigative review to determine what methodologies might be applied in identifying such losses. We recognize there are a number of methodologies that the Postal Service could use to determine the extent of revenue losses. We do not know of any one particular methodology that would work best. However, we believe there are a number of possibilities that could be used, including (1) statistical sampling, (2) ad-hoc studies, (3) cooperative studies with the Inspection Service, (4) a systematic method for documenting and reporting mailings that failed to meet Postal Service standards, and (5) various combinations of these methods. Other acceptable methodologies may also exist. Nevertheless, regardless of the methodology the Postal Service employs, emphasis on identifying losses resulting from accepting barcoded mail that does not meet the Service's standards for automation compatibility is particularly important because, with the rate reclassification initiative that becomes effective in July 1996, the vast majority of discounts granted are to be for barcoded mail. Furthermore, producing such information should not be a daunting task for the Postal Service since, until the 1992 reorganization, it routinely captured and reported the amount of barcoded mail that it was unable to process on its automated equipment.

Also, in late 1994, the Chief Financial Officer/Senior Vice President of the Postal Service chartered a new revenue assurance organization and charged it with ensuring that all revenue due the Postal Service is collected. This organization is to take a leadership role in the coordination and development of effective internal controls over mail acceptance and revenue collection. The organization, which includes a Postal Service headquarters manager, 4 staff, and 1 field coordinator from each of the Postal Service's 10 areas, was given $10 million to identify and recover $100 million in potentially uncollected revenue by the end of fiscal year 1996.

More Selective Verification of Mailings Should Produce Greater Results Than the Current Random Approach

While the Postal Service may be able to gain reasonable assurance that all revenue from bulk business mail is being received by modifying and more closely following the requirements in its current acceptance system, a better long-term solution may lie with the adoption of a risk-based targeting system. The Postal Service's primary procedure for selecting bulk business mailings for in-depth verification is to randomly sample 1 in 10 of each mailer's statements. This selection procedure for in-depth verification applies to every mailer and does not differentiate the risk associated with certain types of mailers or mailings and does not selectively target high-risk mailers or mailings for closer scrutiny.

As discussed earlier, acceptance clerks often have not done the in-depth verifications called for by the Service's random sampling plan. They often disregarded the sampling plan and entered mail directly into the mailstream without doing the required in-depth verification. Other federal agencies that collect revenue and require employees to selectively verify financial data, such as IRS and the U.S. Customs Service, have dealt with large workloads by developing more selective, risk-based sampling plans.

IRS and Customs Use Risk of Error in Sampling Statements for Review

IRS and Customs are more selective than the Postal Service in their sampling approaches. Both IRS and Customs place more emphasis on auditing those returns and inspecting imports that offer the highest potential for yielding the most significant results.[14]

IRS officials told us that prior to the early 1960s, income tax returns were chosen for audit through a costly process that relied on the agency's most experienced revenue agents to manually "eyeball" returns to ensure taxpayers paid the correct amount of tax. Later, IRS refined this process by computerizing criteria used in the manual process. In the late 1960s, IRS began developing the system currently in use—discriminant function analysis (DIF). This multivariate statistical selection technique allows IRS to differentiate among tax returns on the basis of each return's probability of containing errors. Instead of using a system that selects randomly from the entire universe, as the Postal Service does, IRS uses DIF to screen all individual income tax returns received annually and identify those more likely to result in a tax change.

According to IRS, its system decreases the number of returns audited that produce no tax changes and reduces the amount of IRS staff and computer

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[14]IRS and Customs also use penalties to encourage accurate reporting of amounts due the government. The Postal Service does not use penalties because it believes they would be counterproductive to customer service.

time needed to screen returns. IRS believes that the DIF system has significantly increased its efficiency by allowing it to concentrate its limited audit resources on those tax returns with a high probability of error, thereby helping ensure that taxpayers who might otherwise underpay, in fact, pay their fair share. Further, IRS does not have to inconvenience as many taxpayers with audits that produce no change in the tax due, which is a benefit that the Postal Service might also achieve because in-depth verifications can inconvenience mailers.

Like the Postal Service and IRS, the U.S. Customs Service must balance the requirements of its mission with the expectation that enforcement will not disrupt the normal flow of business. Customs must determine whether goods entering the United States are properly classified and correctly valued. From 1842 to the early 1980s, Customs' policy for enforcing import laws was to examine a portion of all cargo shipments, although most of those examinations were cursory. Recognizing in the early 1980s that it had to contend with increasing levels of imports, numerous demands, and limited resources, Customs shifted its trade enforcement efforts from a strategy of checking all imports to one of selecting and inspecting only high-risk imports. Customs said that it is continuing to refine and improve this system to meet present-day challenges.

The Customs system focuses on compliance measurement, enhanced targeting, and trend analysis. According to the Customs Service, fiscal year 1995 marked the first year that Customs implemented a national compliance measurement program. According to Customs, it now has a compliance baseline across a multitude of importing areas, such as industry, importer, consignee, and country. Using this data, Customs said that it is targeting its fiscal year 1996 trade enforcement efforts toward the most important areas of noncompliance. Customs also is randomly selecting shipments to examine in order to monitor compliance rates and adjust its targeting of high-risk areas, as necessary. As a consequence, Customs said that it expects to increase its targeting efficiency, which will result in more productive use of its resources, and to reduce attention to areas of high compliance, thereby facilitating the flow of imports into the United States.

Postal Service Is Studying the Feasibility of Targeting High-Risk Mailings

In March 1994, the Postal Service awarded a contract to a university professor to study the feasibility of using a risk assessment approach to sampling bulk mailer statements. The professor was to determine whether the Postal Service could identify and quantify factors that could be used to

select mailings or types of mailings on the basis of the relative risk of mail preparation errors. Additionally, the contract called for the professor to explore other means of improving verification procedures and is scheduled to be completed in July 1996. Postal Service officials also stated that as part of a benchmarking effort, they had contacted IRS and Customs in late 1995 regarding their methodology for targeting cases for audit/inspection.

In February 1996, postal officials told us they expect to put a completely redesigned bulk mail acceptance system into place by December 1996 that incorporates a risk-based targeting system. In their comments on this report, they also said they plan to do a staffing requirements analysis as soon as design decisions are made on the new acceptance system. Additionally, they said they plan to issue a new bulk mail acceptance manual when the new acceptance system is put in place.

Conclusions

In fiscal year 1994, the Postal Service derived 48 percent ($23 billion) of its total mail revenue from bulk business mail. Yet, weaknesses in the Postal Service's controls for accepting bulk business mail prevent it from having reasonable assurance that all significant amounts of postage revenue due are received when mailers claim presort/barcode discounts.

Postal Service headquarters recognized in the late 1980s that it needed to manage its bulk mail acceptance system more effectively and took steps to do so in 1989 and 1990. However, according to officials we spoke with, the system deteriorated after the 1992 reorganization.

With an estimated $8 billion in discounts allowed in fiscal year 1994, and larger amounts expected as the Postal Service reclassifies its postage rates and moves closer to full automation in 1997, sustained top-level management attention is needed to establish and maintain adequate controls over bulk business mail acceptance. This attention can help ensure that required verifications of bulk mailings, including barcodes, are done and that any errors noted are corrected before bulk mail is accepted into the U. S. mail system.

Recently, the Postal Service launched a number of initiatives to improve the bulk business mail acceptance system. It is too early to know whether these initiatives will eventually correct the internal control problems detailed in this report. However, because they do address many of the problems, we believe that if they are implemented as planned and

monitored appropriately, the initiatives can improve bulk mail acceptance operations.

Recommendations

Because it is too early for us or the Postal Service to reasonably predict the outcome of its many initiatives to improve bulk mail acceptance, we are making several recommendations. We recognize that the Service's initiatives offer the promise of correcting many of the concerns raised in this report. However, we believe recommendations are warranted as a means of fostering sustained management attention until the bulk mail acceptance system is operating effectively and providing the Postal Service with reasonable assurance that all significant amounts of bulk mail revenues are being collected.

Specifically, we recommend that the Postmaster General direct bulk mail acceptance program supervisors and managers to periodically report to appropriate Service levels on operation of the bulk mail acceptance system, initiatives, and the progress and effectiveness of related improvements so management can be reasonably assured that

- required mail verifications, including supervisory reviews, are done and that the results are documented as required;
- mailings resubmitted following a failed verification are reverified and errors are corrected;
- acceptance clerks and supervisors are provided with adequate, up-to-date procedures, training, and tools necessary to make efficient and objective verification determinations;
- information on the extent and results of verifications, including supervisory reviews, is regularly reported to appropriate levels, including Postal Service headquarters, and that such information is used regularly to assess the adequacy of controls and staffing, training needs, and acceptance procedures; and
- risk becomes the prominent factor in determining mailings to be verified.

Also, we recommend that the Postmaster General direct bulk mail acceptance program managers to develop methodologies that can be used to determine systemwide losses associated with accepting improperly prepared mailings.

Agency Comments and Our Evaluation

In its written comments on a draft of this report, the Service acknowledged that many long-standing problems exist with bulk mail

acceptance, and it expressed confidence that the initiatives it has under way, which were cited in our report, will remedy acceptance weaknesses in the bulk mail program and address the report's recommendations. The Postal Service said that almost all of the remedies will be in place later this year or early 1997. The Service's written comments are included as appendix III.

Only after sufficient time has elapsed can we or the Postal Service tell if these initiatives will correct the problems. The initiatives cited by the Service appear to offer promise, but they can easily falter unless there is strong and continuing top-down commitment to improving bulk mail acceptance. In commenting on a draft of this report, the Postal Service said it is putting increased emphasis on management oversight of the bulk mail acceptance function at all levels of the organization.

As arranged with the Subcommittee, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the date of this letter. At that time, we will distribute copies of the report to the Postmaster General and other interested parties. Copies will also be made available to others upon request.

Major contributors to this report are listed in appendix IV. If you have any questions about the report, please call me on (202) 512-8387.

Sincerely yours,

J. William Gadsby
Director, Government
Business Operations Issues

Contents

Abbreviations

ABE	Automated Barcode Evaluator
BARQUEST	Barcoding, Addressing, Readability Quality Utilizing Electronic Systems Technology
BMEU	Business Mail Entry Unit
CASS	Coding Accuracy Support System
DIF	Discriminate Function Analysis
DMU	Detached Mail Unit
IRS	Internal Revenue Service
QPV	Quality Presort Verification

Background Information on the Postal Service's Bulk Mail Acceptance Program

Of the 177 billion pieces of mail processed in 1994 by the Postal Service, over 118 billion pieces, or 67 percent, were categorized as bulk mail. This mail typically arrived at Postal Service mail entry units in sacks, trays, or on pallets and was mostly business-generated. In fiscal year 1994, the Service recorded revenue from bulk business mail of $23.1 billion—48.4 percent of its total mail revenue.

In 1976, the Postal Service began offering postage discounts to mailers who presorted their mail, and in 1988 it began offering discounts for barcoding. The presort and barcode discounts are to compensate mailers for performing work that otherwise would have to be done by the Postal Service. The amount of discount depends on the depth of work performed by the mailer, e.g., barcoded mail sorted in delivery point sequence receives a larger discount than nonbarcoded mail sorted to a 3-digit ZIP Code level.

Over the years, the total dollar value of business mailer discounts for presorting and barcoding has grown, and is expected to continue growing, as the Postal Service moves closer to achieving its goal of having about 90 percent of all letter mail barcoded by the end of 1997. The Postal Service estimates that by 1997, 14,000 pieces of automated equipment costing about $5 billion will have been deployed to sort the mail.

In fiscal year 1994, about 34 percent of all First-Class mail was discounted, and 92 percent of all third-class mail was discounted. According to Postal Service studies, the value of these discounts totaled about $8 billion.

Barcoded Mail Expected to Grow

One of the Postal Service's major long-term strategies is to fully automate mail processing by barcoding almost all letter mail and processing it on automated barcode sorting equipment. Processing letters using automation is more cost-effective than mechanized or manual processing. According to the Service, the comparative costs of processing letters are $3 per thousand using automation, $19 using mechanized letter-sorting machines, and $42 when done manually. Thus, if the Service receives a barcoded letter that must be sorted by mechanized or manual methods, its processing cost will be about 6 or 14 times the automated cost.

Under a mail reclassification initiative, in which the Postal Rate Commission recommended in January 1996 new postage rates for certain mail, the discount for automation-compatible mail will increase and the discount for presort-only will decrease. For example, as recommended by

the Commission, the discount for a First-Class barcoded letter sorted to a 5-digit ZIP Code level will increase from 6.2 to 8.2 cents, and the discount for a presorted-only letter will decrease from 4.6 to 2.5 cents. Similarly, the discount for a third-class barcoded letter sorted to a 5-digit ZIP Code level will increase from 15.4 to 16.5 cents, and the discount for a presorted-only letter will decrease from 13.2 to 11.1 cents. The Postal Service expects that adoption of this change, most of which was approved by the Board of Governors and will become effective July 1996, will increase the First-Class and third-class barcoded mail volumes by 7 and 12 percent, respectively.

Acceptance Units Verify Mailer Sorting and Barcoding

Most bulk business mail is entered at Business Mail Entry Units (BMEUs) and Detached Mail Units (DMUs), located throughout the Postal Service's 85 districts. DMUs are postal acceptance units located at mailers' mail preparation facilities. BMEUs are often located in or adjacent to large mail processing plants, which are postal facilities that process mail for distribution to both local and national destinations. Bulk mail is also entered at many of the 40,000 post offices located throughout the country.

BMEUs typically include a parking/staging area for large trucks and other vehicles that transport mail from mailers to the BMEU facility. They also include a dock for unloading the mail; an area where acceptance clerks can inspect the mail; and a counter area where paperwork, such as mailing statements, can be examined and other business transactions can be completed. Once the mail has been accepted by a BMEU mail acceptance clerk, it moves inside the plant for processing.[15]

The Postal Service's mail acceptance clerks are the gatekeepers for accepting bulk business mail into the mailstream. It is their job to ensure, before mail enters the Postal Service's processing and distribution facilities, that mailers have prepared their mail in accordance with postal requirements and that discounts given for presorting and barcoding have, in fact, been earned. This is a difficult task given the time constraints and the wide variation in the way bulk business mail can be prepared and still meet Postal Service standards.

If mail barcoded by a mailer is accepted by acceptance clerks but later fails to run on postal barcode sorters, then the Postal Service incurs additional costs. This is because the Postal Service must rework the mail

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[15]For additional information on mail processing see Postal Service: Automation Is Taking Longer and Producing Less Than Expected (GAO/GGD-95-89BR, Feb. 22, 1995).

at its own expense even though it gave the mailer the barcoded rate to perform that work. Additional processing costs incurred by the Postal Service are ultimately reflected in higher postage rates, unfairly penalizing those mailers who properly prepare their bulk business mailings.

Verifications Are to Detect Mailer Errors and Ensure That Correct Postage Is Paid

Verifications performed by mail acceptance clerks fall into two categories: (1) cursory reviews of all mailings, and (2) in-depth verifications of randomly selected mailings. In performing a cursory review, acceptance clerks are to randomly check some sacks, trays, or pallets to verify that (1) the mail is prepared as stated on the mailer's mailing statement, (2) the number of mail pieces indicated on the mailing statement is accurate, and (3) the mailer applied the appropriate postage rates.

In-depth reviews are to be performed on at least 1 in every 10 mailings submitted by each mailer. The mailing chosen for an in-depth review is to be selected at random, and, in most cases, three sacks, trays, or pallets are to be rigorously inspected to ensure that the mail was prepared correctly and that all discount qualifications were met. A mailing may fail verification for a number of reasons. For example:

- Mail pieces do not meet minimum or maximum size standards.
- Addresses are not in the Optical Character Reader's scan area.
- Fonts cannot be read by the Postal Service's automated equipment.
- Barcodes do not meet technical specifications.
- The contrast between paper and ink is insufficient.
- There are less than three lines used for the address block.
- The spacing between city, state, and ZIP Code is improper.
- The barcode/address can shift out of the viewing area in window envelopes.
- Presort mail is not labeled correctly.

When verifying mailings, if the acceptance clerk determines that more than 5 percent of a mailing is not prepared correctly, then the mailing is failed. The mailer then has two options: (1) rework the mail so that it meets postal specifications and qualifies for the bulk postage rate applied for or (2) pay the additional single-piece postage rate for that percentage of the entire mailing estimated to be in error.

For every in-depth inspection completed, mail acceptance clerks are required to prepare a written verification report (Form 2866). This report is used to (1) document the results of the verification, (2) notify mailers of

the types of errors found, and (3) aid supervisors in performing quality presort verifications (QPV). A QPV entails a supervisor rechecking an in-depth verification performed by a clerk. Postal facilities that receive 100 or more bulk mailings during a 4-week accounting period are to prepare a consolidated bulk mail acceptance report (Form 2867) documenting the results of their in-depth verifications.

Responsibility for Bulk Acceptance Controls Assigned to Marketing Officials

At Postal Service headquarters, management responsibility for the bulk business mail program resides with the Vice President of Marketing Systems, who reports to the Chief Marketing Officer and Senior Vice President. Area Vice Presidents and district managers are responsible for ensuring that bulk mail acceptance activities conform to prescribed standards within their geographic span of control.

Summary of Inspection Service Work Relating to Bulk Mail Acceptance

During the late 1980s and early 1990s, the Postal Inspection Service reported to postal management, on several occasions, that existing bulk mail acceptance controls were inadequate for preventing revenue losses. In 1986, following a national audit of the Postal Service's revenue protection program, the Inspection Service reported that procedures for mail acceptance, verification, and classification were not being effectively administered. It noted that few of the employees it interviewed felt that revenue protection was part of their job and that this lack of awareness and commitment was resulting in millions of dollars in postage not being collected.

In November 1991, following a national operational audit of the bulk mail acceptance system, the Postal Inspection Service observed that bulk mailings posed a serious risk to Postal Service revenue. It concluded that Postal Service organizational changes in 1986 and 1990 had adversely affected the management oversight necessary to ensure that bulk mail acceptance programs operated as intended. The Inspection Service also concluded that this condition had increased the risk of revenue loss through noncollection of postage and unnecessary mail processing costs due to acceptance of improperly prepared bulk mailings. The Inspection Service found that internal controls at plant load operations had been allowed to deteriorate and become unreliable.[16] It stated that this exposed the Postal Service to serious risk by allowing situations to exist where large mailings could enter the mailstream without payment of postage.

In early 1993, the Inspection Service conducted a nationwide review of the Plant Verified Drop Shipment Program.[17] The Inspection Service reported that internal controls were not effectively or consistently applied and that there was a significant risk that mail could be entered into the mailstream without payment of postage and that mailers could claim unearned discounts.

Although losses were not the primary focus of its audits, the Inspection Service did document and report to management some losses during this period. For example, in fiscal year 1994, the Inspection Service documented losses totaling about $8 million. These losses, however, should not be considered all-inclusive because they were not identified in

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[16]A plant load is an operation in which the Postal Service accepts mail at a customer's plant and provides transportation from the plant in order to preclude handling at the local post office.

[17]Under the Plant Verified Drop Shipment Program, mailings, once accepted by postal personnel, are released back into the control of the mailer, who provides transportation to the destination entry point.

any systematic manner. Rather, they were identified as the Inspection Service was following through on customer complaints, anonymous tips, management requests, leads developed during financial audits, and leads provided by other sources. The losses resulted from mailers not paying full postage for reasons varying from understating the number of pieces being mailed to manipulating the computer software used for generating mailing statements so that the mailing statements misrepresented, in the mailer's favor, the make-up of the mailing.

In 1993, to gain a better understanding of the magnitude of the losses resulting from mailer preparation errors, the Inspection Service established a task force that is taking a more systematic long-term approach to identifying fraudulent mailings that have resulted in revenue losses in the bulk business mail program. According to Inspection Service officials, this approach is being taken in order to demonstrate to postal management the need to improve controls over bulk mail acceptance. Additionally, as of May 1996, the Inspection Service was conducting a National Coordination Audit on the topic of bulk business mail. The objectives of the audit are to (1) conduct a corporate-level review and evaluation of the alignment of the goals and objectives of bulk business mail acceptance with the *CustomerPerfect!*$_{sm}$ initiatives, and (2) provide an economic value added assessment of bulk business mail in relation to the corporate goals of the Postal Service. According to the Inspection Service, this audit will include and address the following issues:

- inconsistencies among acceptance units,
- balancing the goals of unit operations and improving customer service,
- conflicts between dispatch and delivery times with customer satisfaction,
- inability to do a "good job" due to time pressures,
- adequacy of training,
- understanding of national instructions at the local level, and
- identification of new initiatives affecting bulk business mail.

Comments From the U.S. Postal Service

MARVIN RUNYON
POSTMASTER GENERAL, CEO

UNITED STATES
POSTAL SERVICE

May 14, 1996

Mr. J. William Gadsby
Director, Government Business
  Operations Issues
United States General Accounting Office
Washington, DC 20548-0001

Dear Mr. Gadsby:

Thank you for the opportunity to review and comment on the draft report entitled, U.S. Postal Service: Stronger Mail Acceptance Controls Could Help Prevent Revenue Loss.

The title of the report not only summarizes the report's principal finding but reflects postal management's ongoing concerns with the methods we have been using to verify that mailers pay the proper amounts of postage on their bulk mailings. Clearly, stronger and more effective controls on the acceptance of bulk mail will prevent much of the revenue loss that has occurred in the past. As the report notes, we are instituting a number of improvements that are just now beginning to correct many of the long-standing issues in the bulk mail acceptance function. We expect that these improvements will fully address the recommendations contained in the report.

For the past several years, the bulk mail acceptance function has been in a period of transition from a labor-intensive, essentially manual process to one that relies much more on technology to handle the increasingly heavy volumes of bulk mail with more accuracy and with relatively fewer workhours. In many ways, this transition is similar to the one we have been experiencing in moving from a mail processing environment that was also predominately manual in nature to one that will soon be almost totally automated. As we have seen with automation, such major changes do not happen overnight or by themselves but require persistence, ingenuity and senior management's continuing attention and commitment.

We are making significant progress in upgrading the mail acceptance function in three specific areas that will not only improve the quality and timeliness of the service we provide to bulk mailers but also build in greater protection for one of our major revenue streams. All three strategies depend heavily on technology-based tools and computer software systems to integrate customers' automated mail preparation systems with our own automated mail processing systems.

CERTIFICATION OF MAILER SOFTWARE
In a cooperative effort with the mailing industry, we have developed several specialized tools to evaluate and certify the quality of commercially available address-matching software programs and ensure that they are capable of producing mail pieces that can be processed by our automated equipment. The use of these certified products is a requirement for mailers to receive automation-based postage discounts. Our rationale for certifying mail preparation systems is to build in quality standards "up front" so we have a greater assurance that mail being presented at acceptance units actually qualifies for the rate discounts being claimed.

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RISK-BASED VERIFICATION

As more mailers use certified mail preparation products, we are shifting our strategy for verifying mailings away from a standard of conducting in-depth verifications on randomly selected mailings regardless of the risk of potential revenue loss. Instead, we are moving toward a risk-based selection criterion by which certain types of mailings and mailers that represent a greater risk of revenue loss are targeted for more in-depth verifications. This strategy is consistent with established risk management programs used by the Customs Service and the Internal Revenue Service.

The report's finding that acceptance unit clerks did not have the necessary tools to verify the quality of mailer-applied barcodes is a problem that we are close to solving. As the report points out, we are deploying 260 Automated Barcode Evaluators (ABEs) that will be sent to the acceptance units that are responsible for the verification and review of 90 percent of today's automatable letter mail. ABEs will be used on every automation rate mailing and can provide reports on the quality of the barcodes on tested mailpieces. This tool should ensure consistent application of barcode standards, diminish verification complexity, and provide the platform for future automation of other verification requirements.

MANAGEMENT OVERSIGHT

A "seat of the pants" approach to bulk mail acceptance is no longer acceptable in an organization that is trying to be *CustomerPerfect!*sm. We are putting an increased emphasis on management oversight of the acceptance function at the local, Area, and Headquarters levels. At the local unit level, the current bulk mail acceptance support software is being redesigned and will capture and report detailed results of a unit's verification operations for local management attention. The five Rates and Classification Centers, in conjunction with Area Customer Support Service managers, are taking an active role in auditing the operation of large acceptance units to ensure that the required verifications are performed, that units are following prescribed verification methods, and that staffing levels are appropriate for the volumes of mail being presented at the units.

Our Revenue Assurance staff at Headquarters has developed and issued a self-review procedure for acceptance units to use in evaluating their operations against a checklist of standard operating procedures. Revenue Assurance is also working closely with the Business Mail Acceptance staff to develop an extensive training package for mail acceptance personnel.
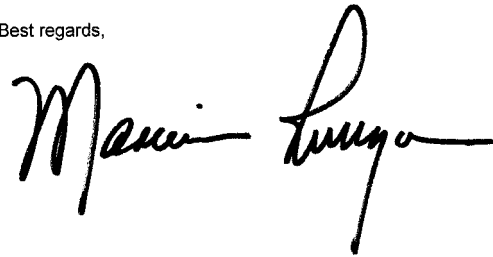
The Inspection Service is currently conducting a National Coordination Audit of the bulk mail acceptance function. The purpose of the audit is to review and evaluate the goals and objectives of the mail acceptance function in light of our corporate level *CustomerPerfect!* initiatives and to develop an economic value added assessment of bulk business mail in relation to the Postal Service's corporate goals. In performing this audit, the Inspection Service will address many of the issues raised in the report, such as inconsistencies among acceptance units' operations, and adequacy of training and staffing. The Chief Postal Inspector has established a Revenue Protection Task Force that continues to work with the Business Mail Acceptance staff to identify areas of vulnerability in business mail acceptance operations.

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While we still need to make more progress in strengthening bulk mail acceptance procedures, I am confident that the weaknesses identified in the report will be remedied by these initiatives, tools and processes, almost all of which will be in place later this year or early next year.

Best regards,

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