GAO

November 1999

U.S. POSTAL SERVICE

Changes Made to Improve Acceptance Controls for Business Mail

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United States General Accounting Office
Washington, D.C. 20548

General Government Division

B-282692

November 9, 1999

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

Dear Mr. Chairman:

As you know, the Postal Service discounts postage rates to customers who barcode and presort their business mail before submitting it in bulk quantities to the Service for acceptance processing. The discounted postage rates compensate customers for performing work that otherwise would have to be done by the Service and recognize the Service's lower cost of processing such mail on automated equipment.

We reported in June 1996 that the Service did not have adequate controls over the acceptance of business mail.[1] The Service could not ensure that customers had properly prepared their business mail and were therefore eligible to receive the discounted postage rates. We made specific recommendations for correcting the problems we found. This report responds to your November 19, 1998, request that we determine whether the Service had made the changes we recommended and whether those changes were working.

After determining what changes were made by the Service and observing acceptance controls in operation at eight business mail facilities, we briefed your office on July 8, 1999, on the results of our work. As agreed at that meeting, we completed our work and prepared this report in response to your request.

Results in Brief

The Service made changes to its controls over the acceptance of business mail. Those changes are generally along the lines that we recommended in 1996 and its controls overall appear to have improved. However, the Service lacks information on how well its controls are working Servicewide and thus cannot ensure that it is collecting all the revenue due from its business mail operations.

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[1] U. S. Postal Service: Stronger Mail Acceptance Controls Could Help Prevent Revenue Losses (GAO/GGD-96-126, June 25, 1996).

Since our 1996 report, the Service has

- developed and implemented a risk-based approach for verifying the eligibility of high-risk customers to receive discounted postage rates;

- made changes to its presort verification, supervisory review, and documentation requirements to help provide more assurance that these functions are performed;

- changed its business mail acceptance-control procedures and training guidelines to help supervisors and staff perform their tasks properly and made key tools available to help them more accurately determine customers' eligibility for specific postage discounts;

- developed information sources for managers to use in evaluating business mail acceptance controls, procedures, staffing, and training; and

- incorporated reviews of its business mail operations into a Servicewide effort to protect revenue and obtain all compensation due for its services and products.

On the basis of our evaluation of the Service's new business mail acceptance control process, discussions with Service officials, observations of acceptance procedures at eight business mail facilities, and review of Postal Inspection Service audit reports, we believe that the changes the Service made to its business mail procedures and operations help to prevent revenue losses. However, we could not determine whether all of these changes are working Servicewide because data needed to make such a determination were not available. For example, although the Service changed its requirements for supervisory reviews of business mail acceptance procedures, the Service did not provide a means to ensure that the reviews now required are always performed. In fact, we found evidence that the reviews now required were not always performed at the locations we visited. Further, the Inspection Service found that required presort verifications were performed properly at some locations but not at others and that business mail acceptance-unit employees needed additional training at some locations but not at others. The locations with problems generally included those with relatively small volumes of business mail, one or two employees, and no supervisor at that location. Neither the results of our work or the work of the Inspection Service that we reviewed can be projected to the universe of Service business mail facilities. However, there is sufficient evidence that the Service has not fully addressed our 1996 recommendations that it ensure that required

supervisory reviews are performed and that it develop information for evaluating the adequacy of its business mail acceptance controls. Accordingly, we are making additional recommendations to the Service directed toward our specific concerns.

Background

According to the Service, approximately 855,000 customers generate business mail, and over 4,600 Service employees handle that mail at 1,900 Business Mail Entry Units[2] and 850 Detached Mail Units[3] nationwide. In fiscal year 1998,[4] business mail was the largest contributor to the Service's total mail revenue and total mail-piece volume. Service-provided operational information shows that in fiscal year 1998, business mail accounted for 49 percent of the Service's $58 billion in total mail revenue and 66 percent of the nearly 200 billion mail pieces handled by the Service.

Because of the importance of business mail to its overall operations, the Service has developed a business mail plan to guide it in meeting the business mail challenges of the future. The plan is based on four strategies:

- Make the business mailing process as easy as possible for customers by eliminating unnecessary rules, having highly trained staff, and making maximum use of technology to achieve verification, acceptance, and payment processes.

- Lower the operational costs of verifying a customer's eligibility for discounted rates by raising the customer's preparation skills to a level that can be tested and certified.

- Retain and grow revenue through more work sharing incentives and removal of pointless rules.

- Obtain timely and accurate customer information during routine mail processing in order to use that information to better serve customers' needs.

The Service currently has about 30 different initiatives planned or in process that it believes will be helpful in achieving these four strategies.

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[2] The Service defines a Business Mail Entry Unit (BMEU) as the area of a postal facility where customers submit their business mail for acceptance processing. The unit includes dedicated platform space, office space, and a staging area on the workroom floor.

[3] The Service defines a Detached Mail Unit (DMU) as an area at a customer's plant used by the Service to accept, verify, and dispatch large volumes of mail.

[4] The Service's fiscal year 1998 started on September 13, 1997, and ended on September 11, 1998.

The seriousness of the control weaknesses we identified in our earlier work and the potential impact those weaknesses could have on Service revenue led us to make several recommendations to the Service in our 1996 report, which we believed were needed to improve business mail acceptance controls and minimize revenue losses. We recommended that the Service

- use a risk-based approach for selecting mailings to receive presort verification;[5]

- ensure that required presort verifications and supervisory reviews of those verifications are performed and documented;

- provide supervisors and staff with updated procedures, training, and tools;

- develop and use valid information for evaluating the adequacy of business mail acceptance controls, procedures, staffing, and training; and

- develop methodologies for measuring systemwide revenue losses.

Scope and Methodology

To determine the actions taken by the Service in response to our 1996 recommendations, we discussed with Service officials changes made to the Service's business mail acceptance controls and obtained and reviewed program procedures and guidelines for the new process. We also obtained information on future plans for operation of the business mail program and programwide performance information for fiscal year 1998—the latest available fiscal year data at the time of our review. To determine whether the changes to the business mail acceptance controls were working, we obtained programwide information related to staff training and contractor surveys of business mail operations that measure various business mail performance indicators. Further, we observed business mail acceptance control procedures that were being carried out by Service employees at eight business mail facilities. We judgmentally selected the business mail facilities shown in table 1 to provide geographic dispersion for our work. The results of our work cannot be projected to the Service's other business mail processing facilities. Although we did not fully verify the accuracy of the program information the Service provided us, we verified some information by reviewing certain presort verification records and records of supervisory reviews of acceptance procedures at the locations we visited.

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[5] A presort verification is a testing of a customer's mail to determine if it was presorted in accordance with Service requirements.

Table 1: Business Mail Facilities Visited by GAO

Business Mail Entry Unit / Detached Mail Unit	Location
Boulder BMEU	Boulder, CO
Capitol Heights BMEU	Capitol Heights, MD
Dallas BMEU	Dallas, TX
Denver BMEU	Denver, CO
Fort Worth BMEU	Fort Worth, TX
Washington BMEU	Washington, D.C.
Centrobe, Inc., DMU	Louisville, CO
Texas Direct DMU	Fort Worth, TX

Source: GAO.

According to Service officials, the types of facilities we visited accounted for most of the business mail revenue received by the Service in fiscal year 1998. Also, according to Service officials, these types of facilities are where the acceptance control process makes extensive use of computers and where most business mail is processed. We did not observe any business mailings at mail facilities that used a manual acceptance control process.

At the eight business mail facilities we visited, we observed Service employees performing acceptance process tasks for 40 different mailings submitted by customers. These included (1) mailings with 10,000 or fewer mail pieces, (2) mailings with more than 10,000 mail pieces, (3) mailings that received presort verifications, and (4) mailings that received Automated Barcode Evaluator testing.[6] We selected mailings according to the number of mail pieces because the Service considers mailings with more than 10,000 mail pieces to be high-risk mailings and those with 10,000 or fewer mail pieces low-risk mailings. We selected mailings that were to receive presort verifications and Automated Barcode Evaluator testing to observe mailings that were subjected to these specialized acceptance controls.

The 40 mailings we observed totaled 761,399 mail pieces and $172,361 in postage. We compared acceptance control steps taken by business mail employees on these mailings to the steps specified in Service program guidelines. We obtained explanations from the employees for their acceptance decisions and compared their responses to requirements specified in program guidelines. Our observations were not intended to determine whether business mail clerks applied appropriate Service postage rates to various types of business mail.

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[6] An Automated Barcode Evaluator is a piece of equipment that determines whether mail barcodes meet technical standards.

We reviewed a number of Inspection Service audit reports for the last several years relating to Service business mail operations.[7] We conducted our review between March and October 1999 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Postmaster General. The Service's comments are discussed near the end of this report.

Risk-Based Verifications

In 1996, we reported that the Service's random method of selecting business mailings for presort verifications may not result in the best use of the Service's resources and said that the Service could better target its verification efforts based on risk by considering factors such as mailer histories and the postage value of mailings. We recommended that the Service make risk a prominent factor in deciding which mailings should receive a presort verification. The Service agreed, and with the help of a consultant, determined that mailings of more than 10,000 mail pieces posed the greatest risk to the Service of revenue loss. The Service structured its new acceptance controls so that a "one-pass" evaluation is made of mailings posing the least risk of revenue loss and a "two- pass" evaluation is made of mailings with the higher risk of revenue loss. This risk-based approach by the Service addresses the objective we intended by our 1996 recommendation in that fewer but more high-risk mailings are targeted for verification.

Under the one-pass concept, low-risk mailings of 10,000 or fewer pieces would typically receive an evaluation that includes

- verification that the customer has Service approval to make business mailings;

- verification that the customer has funds on deposit in his Service postage account sufficient to cover the cost of the mailing;

- visual checks of the accuracy of technical requirements, such as routing labels and zip codes;

- verification of weight, mail-piece count, and postage accuracy; and

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[7] We reviewed a random sample of 54 of 183 Postal Inspection Service audit reports issued from August 3, 1998, to June 17, 1999. The 183 reports were taken from a random sample of financial installation audits by the Inspection Service of nearly 28,000 Service field installations nationwide. The 54 reports included 12 that contained results of audits of business mail acceptance controls. In addition, we reviewed four of five Inspection Service audit reports mentioned in the Service Office of Inspector General's Semiannual Report to the Congress (October 1, 1998, through March 31, 1999), which contained audit results of business mail operations at four locations. The fifth report was not available for our review.

- verification of barcodes if required by Service criteria.

If a one-pass mailing passes this evaluation, it is accepted and entered into the mail stream. However, the customer is required to fix any problems found during the evaluation before processing will continue. Also, if a customer leaves the business mail facility before the mailing has been physically inspected for compliance with technical requirements, such as the adequacy of routing labels and zip codes, any detected problems in these areas will cause the mailing to receive a presort verification. If the one-pass mailing passes the presort verification, it is to be accepted and entered into the mail stream. If the mailing fails the verification, the customer is to correct the problems or pay a higher postage rate before the mail is entered into the mail stream.

Under the two-pass concept, high-risk mailings of more than 10,000 mail pieces receive the same initial evaluation as one-pass mailings. However, a presort verification will also be performed if the computer selects the mailing for such testing. The frequency of selection for presort verification testing depends upon whether the customer has consistently submitted well-prepared mailings. If the two-pass mailing passes the presort verification, it is to be accepted and entered into the mail stream. If the mailing fails the verification, the customer is to correct the problems or pay a higher postage rate before the mail is entered into the mail stream.

Data obtained from the Service showed the following level of one-pass and two-pass mailing activity in fiscal year 1998.

Table 2: One-Pass Mailings in FY 1998

Description	Total
Number of mailings processed	10,292,968
Number of presort verifications	409,971
Number of mailings failing the presort verification	13,577
Additional postage collected	$212,263
Cost avoided[a]	$17,454,315

[a] Cost avoided is the difference between the postage for which a mailing is determined to be eligible and the postage the customer had claimed when the mail was submitted for acceptance processing.

Source: U.S. Postal Service Enterprise Information System.

Table 3: Two-Pass Mailings in FY 1998

Description	Total
Number of mailings processed	1,718,077
Number of presort verifications	213,139
Number of mailings failing the presort verification	4,911
Additional postage collected	$892,906
Cost avoided[a]	$19,651,915

Presort Verifications

In 1996, we reported that 40 percent of the required presort verifications of business mailings that we reviewed were not performed and that many rejected mailings were resubmitted and accepted into the mail stream without proper corrections or postage. We recommended that the Service establish procedures to ensure that all required presort verifications and all reexaminations of failed mailings are performed and documented. In our most recent review, we found that the Service changed its requirements for presort verifications and incorporated the changes into a computer-controlled process that has integrated presort verification and documentation requirements. The computer driven process for selecting high-risk mailings for presort verification, combined with limiting the authority to override the computer's selection of a mailing for presort verification to supervisors, provides the Service greater assurance that required presort verifications are performed. However, the Service still has no systematic way of knowing whether all required verifications are performed.

Business mail clerks are to begin processing a mailing by entering customer information into a computer. If the mailing is high-risk, the computer will determine whether a presort verification is required based on the customer's prior mailing history, which is electronically accessed by the computer. As part of this process the customer's historical success at passing presort verifications is electronically compared to Service-developed criteria that determines the required frequency for presort verifications.[8] If a presort verification is required, a code for the results of the verification process must be input to the computer to complete processing and to update the customer's mailing history.

If a customer has consistently submitted well-prepared high-risk mailings the computer is to randomly select 1 out of every 30 mailings submitted by that customer for a presort verification. However, if for any reason the presort verification cannot be performed, a supervisor must approve the decision to override the presort verification requirement. We did not observe any supervisory overrides during our visits, but Service managers

[8] Based on Service criteria, if a customer has consistently submitted well-prepared mailings, 1 out of every 30 mailings is to be randomly selected for a presort verification. A customer that fails more than 3 consecutive presort verifications is to be dropped to the lowest level where a presort verification is to be performed on every mailing until three consecutive presort verifications are passed. A customer must then pass three consecutive presort verifications at the 1 out of 10 and 1 out of 20 levels in order to return to the 1 out of every 30 mailings level.

said that supervisory overrides do occur. According to these managers, a common reason for the overrides is that there is not enough time to do the presort verification and still meet tight mail processing schedules. Service managers also indicated that they monitor the reasons for supervisory overrides. In addition, if an override is approved, a computer code, which is required to be input into the computer, is to automatically schedule the customer's next mailing for a presort verification.

If a customer has a history of not submitting well-prepared mailings, the computer is to select each of the customer's mailings for a presort verification. Service guidelines require that presort verification failures be documented with a specific code input to the computer. This code is designed to trigger the requirement for another presort verification when the failed mailing is resubmitted for acceptance processing. In addition, after the resubmitted mail is accepted, a computer code is to trigger a presort verification of the customer's next mailing.

At the eight locations that we visited, the required presort verifications were performed during our observations of the process at each location. However, we noted that in several Inspection Service audit reports, prepared in 1998 and 1999, there were indications that the required presort verifications were performed at some locations, but they were not always performed at others. These latter locations were primarily smaller facilities that handled relatively small volumes of business mail and employed one or two employees with no supervisor assigned at those locations. Nevertheless, the Service has no systematic way of ensuring that all required verifications are being performed at locations Servicewide.

Supervisory Reviews

In 1996, we reported that business mail supervisors did less than 50 percent of the required reviews of presort verifications. We recommended that the Service establish procedures to ensure that all required supervisory reviews of presort verifications are being performed and documented. According to the Service, to strengthen the supervisory review process, in November 1996, it implemented new requirements for supervisory review of business mail acceptance procedures. Supervisors are now required to review all of the mail acceptance procedures performed by business mail clerks on four mailings per week.

However, for the period we reviewed, supervisors at the eight locations we visited had not performed the four required reviews per week. Specifically, we found that the average number of reviews performed ranged from none to about three per week. Reasons provided to us by business mail facility

managers and supervisors for not doing all of the required supervisor reviews included

- sickness and/or temporary reassignment of supervisors,

- not enough time, and

- the reviews that were done did not show any significant problems, so further reviews were not done.

We brought this issue of required supervisory reviews not being done to the attention of Service headquarters officials. They stated that they consider these reviews very important quality-control checks; and on June 24, 1999, the Manager, Business Mail Acceptance, notified all business mail facility managers that required supervisory reviews are to be performed. Nevertheless, the fact that supervisors were still not doing all of the required reviews again points out the need, as we recommended in our 1996 report, for the Service to develop a process for ensuring that all required supervisory reviews are being performed.

Control Procedures, Training, and Tools

In our 1996 report, we pointed out several business mail acceptance control procedures that were not being performed as intended by Service employees. We recommended that the Service ensure that business mail control procedures are updated and business mail supervisors and staff are provided with the training and tools needed to properly verify whether business mail is eligible for postage discounts. In our latest review, we found that the Service had updated business mail acceptance control procedures, provided training designed to help ensure that acceptance work is done correctly, and makes tools available to its employees to help them determine customers' eligibility for discounted postage rates. However, Inspection Service audits disclosed that some business mail acceptance-unit personnel needed additional training in certain aspects of the business mail acceptance process.

Control Procedures

Our 1996 report highlighted a control weakness that allowed Service employees to override the requirement to perform a presort verification on as much as 40 percent of all required presort verifications. Specifically, under the Service's old control system, business mail clerks often would override the computer-generated requirement to perform a presort verification. According to the Service, business mail clerks often would not do the required verifications because they felt pressured to complete the acceptance process and release the mail into the mail stream to meet tight processing schedules. Managers and supervisors in the business mail units

did not exercise any oversight of this practice. The Service dealt with this problem by eliminating business mail clerks' authority to make override decisions. Now, Service procedures provide that only a supervisor can approve the override of a computer-generated notice to perform a presort verification. Further, supervisory override decisions are to be identified in monthly reports to the business mail facility manager.

Additionally, we reviewed another monthly report generated at Service headquarters that showed the total number of overrides at business mail facilities nationwide. The Service official who uses this report told us that it is very helpful in preventing abuse of the override authority. She provided us with a report for fiscal year 1999 that showed 16,702 approved overrides nationwide out of 203,595 presort verifications that were required during that fiscal year. Thus, overrides averaged about 8 percent for fiscal year 1999 compared with the average of 40 percent that we reported in 1996. Service officials said that to help control overrides, they watch for individual units with sudden increases in the number of overrides then determine and evaluate the causes of the overrides. A Service official stated that sudden increases in overrides sometimes happen because a new employee may not be following correct procedures. Other causes can be unusual operational problems, such as sudden illnesses of business mail clerks or supervisors.

Training

Our 1996 report noted that the Service had an initial training course for new business mail clerks assigned to business mail acceptance units but had no specialized training for supervisors. Current Service guidelines call for managers, supervisors, specialists, and analysts to be provided 16 hours of management skills training, 16 hours of technical training, and 8 hours of interpersonal training per year.[9] In addition to the initial training course for new business mail clerks mentioned above, all business mail clerks are to receive 16 hours of technical training and 8 hours of interpersonal training per year. The Service reportedly tracks the technical and interpersonal training completed by business mail acceptance-unit employees and provides individual, business mail acceptance-unit, and postal district incentive awards for completion of the training.

Table 4 shows the percentage of business mail acceptance-unit employees who, according to the Service, completed their fiscal year 1999 training by June 30, 1999.

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[9] The management skills training is done with videotapes and completion statistics are not monitored at the national level.

Table 4: Fiscal Year 1999 Training Completed by June 30, 1999

Type of Training	Percent Completed
Technical	69
Interpersonal	75

Source: Data provided by Business Mail Acceptance, U.S. Postal Service.

Notwithstanding this information on training the Service provided to business mail clerks, managers, and supervisors in fiscal year 1999, several 1998 Inspection Service reports pointed out that some business mail acceptance-unit employees needed additional training in various aspects of the business mail acceptance process. Again, as was the case with its finding that the required verifications were not always performed, the Inspection Service findings about the need for additional training primarily involved employees at smaller postal locations (in terms of the volume of business mail processed). Nevertheless, it is uncertain whether the Service's current training program is sufficient or whether business mail acceptance-unit employees need additional training because Servicewide information related to additional training needs of business mail acceptance-unit employees is not available.

Tools

Our 1996 report noted that although the Service had granted postage discounts to business customers since 1988, it had been slow to provide its employees the tools necessary to ensure that accepted business mail meets Service standards for allowing discounts. The Service has since taken actions to provide its employees with tools, such as the Automated Barcode Evaluator machines, to help make efficient and objective business mail acceptance determinations. In May 1998, the Service began using Automated Barcode Evaluator machines as part of the business mail acceptance process. Service information shows that 258 machines have been placed in the larger business mail facilities across the country. Information obtained from the Service shows that from May 1998 through September 1999 over 291,000 mailings had been barcode tested, and almost $2.2 million in additional postage had been collected when testing showed that barcode requirements were not met.

According to the Service, making maximum use of technology to accept and verify business mail is one of the four strategies the Service has established for improving its overall operations. In keeping with this strategy, according to Service officials, 500 portable barcode verifiers will be provided during fiscal year 2000 to business mail clerks at 250 business mail facilities across the country. According to the Service, these verifiers should enable business mail clerks to objectively check the accuracy of barcoded sack and tray labels on customers' mailings. If the verifiers work

effectively, they should reduce the number of mail containers incorrectly routed, a condition that slows delivery of the mail and adversely affects operational efficiency. According to the Service, an additional 180 portable barcode verifiers will be used to assist customers in improving the quality of their mail barcodes.

Evaluations of Acceptance Controls and Operations

In 1996, we reported that the Service lacked key data needed to assess the adequacy of its business mail acceptance controls and related risks. Specifically, we said that the Service lacked information on the extent to which improperly prepared mailings were entering the mail stream at reduced postage rates and the amount of rework required by the Service to correctly process and deliver this mail. We recommended that the Service develop and use valid information for evaluating the adequacy of business mail acceptance controls, procedures, staffing, and training. Our most recent work disclosed that the Service had developed two major sources of program information for evaluating business mail acceptance controls and program operations.

The first source is the Enterprise Information System. This is an on-line report of acceptance processing results that is available to Service managers locally, regionally, and nationally. This system presents the results of business mail acceptance activities for a rolling 14 accounting periods and can be viewed in summary or detail form for any organizational unit as small as the individual business mail unit, or as large as a headquarters level roll up. Some of the information available in this system includes the following items:

- total number of business mailings accepted,

- total business mail volume,

- total business mail revenue,

- total number of one-pass and two-pass presort verifications performed,

- total number of one-pass and two-pass presort verifications with unacceptable number of errors,

- total number of supervisor overrides of computer-specified presorts,

- cost avoided on presort verifications with unacceptable level of errors, and

- additional postage collected as a result of acceptance processing controls.

Tables 2 and 3 in this report show examples of information available from the Enterprise Information System.

The second source of program information is the Business Mail Proficiency Program that began in fiscal year 1998. This program has two components. First, information to measure proficiency is gathered through a Mystery Caller program. Under this program, Service contractor personnel are to make about 250 telephone calls each quarter to business mail facilities in each Service district and ask Service employees technical questions that a business mail customer would likely ask. The second component is a survey of business mail customers. The survey, administered by Gallup, asks business mail customers their opinion on how well their needs were met on their most recent visit to a specific business mail facility.

Information provided by the Service showed that the results from the Mystery Caller program and the survey are transformed into quarterly scores measuring each business mail facility's performance in (1) technical knowledge, (2) helpfulness, (3) consistency, and (4) facility appearance. The results are to be used to modify the training curriculum for each facility's staff to emphasize areas where the employees did not score as well as they should. For example, the Denver business mail facility manager said that fiscal year 1999 scores indicated that the Denver facility needed to emphasize training in 7 of 13 technical areas measured by the Mystery Caller program. She provided us data showing that these areas related primarily to eligibility requirements and acceptance standards for various categories of business mail. We did not determine whether the Mystery Caller program measures employee technical proficiency in any of the same technical areas where the Inspection Service found that additional training for some business mail acceptance employees was needed or whether the additional training needs identified by the Inspection Service have been addressed by the Service.

Measuring Revenue Losses

Our 1996 report noted that the Service acknowledged it lacked needed information on the extent of revenue losses associated with accepting improperly prepared business mailings. Our report recommended that the Service measure systemwide revenue losses as a basis for judging whether acceptance controls were working to prevent such losses. Rather than develop a methodology to determine systemwide losses, the Service decided to use its Revenue Assurance group to identify systemwide "opportunities" to improve revenue protection processes and to see that the Service is properly compensated for all its products and/or services. This approach by the Service is intended to provide it with certain

information on revenue losses, which is one of the objectives that we had in mind when we made our recommendation in 1996.

The Revenue Assurance group was established in 1994 and has five goals:

- Identify services that the Service has provided without collection of proper postage or fees.

- Protect future revenue by improving processes.

- Ensure compliance with current policies and regulations.

- Promote revenue protection awareness.

- Communicate revenue awareness to customers and Service employees.

According to the Service, as a result of using this approach, it collected $26.5 million in additional revenue at business mail units in fiscal year 1998 and an additional $30.1 million in fiscal year 1999. Revenue Assurance officials provided us information indicating that they had identified causes and taken corrective actions for the problems they found in the business mail acceptance process. For example, in 1997, the Revenue Assurance group reviewed government agencies' permit mailings and identified numerous mailings for which the proper postage was not collected. As a result, an updated official mail handbook and data entry users guide were distributed and employees in each district received training. According to the Service, the efforts of the Revenue Assurance group, related to the changes made in handling government agencies' permit mail at business mail acceptance locations, reduced the Service's losses from $20.2 million in fiscal year 1998 to $7.4 million in fiscal year 1999.

Conclusions

Since our last review, the Service has changed its business mail acceptance process generally along the lines that we recommended in our 1996 report, and the Service's business mail acceptance control procedures, overall, appear to have improved. However, the Service still lacked comprehensive information on how well its business mail acceptance controls are working and thus cannot ensure that it is collecting all the revenue due from its business mail operations. We found that required supervisory reviews were not always being done at the business mail acceptance units we visited; while the Inspection Service found that required presort verifications were not being done at some business mail acceptance units and that employees at some business mail acceptance units needed additional training. The Service has directed its

managers to ensure that the required supervisory reviews are performed; however, the Service does not have assurance that these reviews are being performed. And, the findings of the Inspection Service would further indicate that the Service does not have assurance that its controls are always working to prevent improperly prepared business mail from entering the mail stream at reduced postage rates at thousands of Service field locations. Information providing such assurances is not available. Accordingly, we do not believe that the Service has fully addressed our 1996 recommendations that it ensure that required supervisory reviews are performed and that it develop information for evaluating the adequacy of its business mail acceptance controls.

Recommendations to the Postmaster General

We recommend that the Postmaster General direct appropriate Service officials to develop and implement approaches for providing reasonable assurance that (1) required supervisory reviews of presort verifications are done and (2) business mail acceptance controls are working as intended to prevent improperly prepared mailings from entering the mail stream at reduced postage rates and to minimize the rework required by the Service to correctly process and deliver such mail.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from the Postmaster General. On October 21, 1999, we received oral comments from the Service's Manager of Business Mail Acceptance. He stated that he generally concurred with the information and the recommendations included in the draft report. Concerning our second recommendation for reasonable assurance that business mail acceptance controls are working as intended, he said that development of a process to provide feedback on the amount of improperly prepared business mail that is being accepted for processing is a good idea and he believes that doing this in a cost-effective manner will be challenging. He also provided clarification on several technical matters, which we have included in this report as appropriate.

In addition, on October 21, 1999, the Service's Manager of Revenue Assurance provided us with updated information on the amount of additional revenue from business mail operations his group had collected in fiscal year 1999. We revised our report to reflect that information.
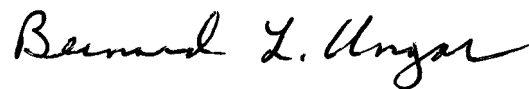
We are sending copies of this report to Representative Chaka Fattah, Ranking Minority Member of your Subcommittee; Senator Thad Cochran, Chairman, and Senator Daniel Akaka, Ranking Minority Member, Subcommittee on International Security, Proliferation and Federal Services, Senate Committee on Governmental Affairs; William J.

Henderson, Postmaster General; and Karla Corcoran, Postal Service
Inspector General. We will also make copies available to others upon
request.

If you have any questions about this report, please call me at (202) 512-
8387. Key contributors to this report were Sherrill H. Johnson and Billy W.
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