Audit Highlights

Highlights of performance audit report on the Department of Administration, Mail Services Division, Operations and Billing Processes issued on January 16, 2025.

Legislative Auditor report # LA26-03.

Background

The Mail Services Division (Division) is part of the Department of Administration. The Division provides mail services to participating state and local government agencies in the Carson City, Reno, and Las Vegas areas. Services provided include pickup, processing, and delivery of outgoing mail.

The Division operates its primary mailroom and administrative headquarters in Carson City, as well as a second mailroom in Las Vegas. As of June 30, 2023, the Division had 21 filled positions, with 15 staff located in Carson City and 6 in Las Vegas.

The Division administers two budget accounts. Funding is primarily derived from postage revenue received from customer agencies. In fiscal year 2023, the Division's revenues and expenditures amounted to over $8 million.

Purpose of Audit

The purpose of the audit was to determine whether the Division's controls protect against improper transactions, including fraud, and ensure accurate billing of agencies for mail services.

The audit focused on the Division's activities from January 1, 2022, to June 30, 2023; and certain postage activity through May 2024.

Audit Recommendations

This audit report contains 15 recommendations to reduce the risk of improper transactions and improve the process of billing for the Division's services.

The Mail Services Division accepted the 15 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on April 14, 2025. In addition, the 6-month report on the status of audit recommendations is due on October 14, 2025.

Operations and Billing Processes

Mail Services Division

Summary

The Division's lack of controls for certain mail processes increases the risk that fraud and waste have occurred or will occur in the future. Although we did not specifically identify instances of fraud, we were unable to conclude that it did not occur because of limitations to available information discussed throughout this report. A lack of controls led to suspicious metering transactions, unsecured metered envelopes, uncollected and inaccurate refunds, and unknown parties accessing Division funds. In addition, the Division did not perform background checks for individuals with access to sensitive information. With some metered transactions worth tens of thousands of dollars and the Division paying millions of dollars in metered postage costs each year, the opportunity to defraud the State is significant.

The Division does not have a sufficient process to ensure it accurately bills customer agencies. System errors caused the Division to over and underbill customer agencies for services provided. Unusually large, suspicious transactions and remote meters also created additional billing inaccuracies. Furthermore, insufficient review of billings led the Division to underbill for certain production work. This also created waste because the Division had to absorb the cost of some work as a loss. Inadequately trained staff and a lack of formalized policies and procedures contributed to these billing issues. Ensuring billings are accurate and adequately supported is essential to safeguarding state resources.

Key Findings

The Division did not identify or prevent unusually large, suspicious metering transactions. We found about 6,200 overpaid envelopes totaling more than $22,000. The 10 largest of these envelopes amounted to over $8,400 when they should have cost no more than $6. Clerk credentials for metering transactions were also missing and inaccurate. Clerk credential omissions and inaccuracies occurred in over 406,000 pieces of mail costing over $168,000. The Division did not document nearly $273,000 in metering activity that was billed to customers. Because of this limitation, we cannot determine if there were additional suspicious transactions or transactions with missing or inaccurate clerk credentials. Strong controls over metered transactions are imperative to reduce the Division's vulnerability to fraud and waste. (page 9)

The Division's controls over metered envelopes were weak. Metered envelopes with errors were kept unsecured. Additionally, postage refunds were not promptly collected, resulting in reduced refund amounts. Similarly, the Division lacked controls to ensure that postage metering refunds were accurately distributed to customer agencies. Such processes are vital to protecting the Division from fraud and waste of state resources. (page 11)

The Division did not properly monitor activity on remote meters with access to its postage accounts. For example, the Division was only aware of half of the meters connected to its accounts and did not know the other remote meters were in operation and drawing funds from its accounts. Moreover, unknown parties used remote meters to improperly access Division funds without proper authorization. Stronger controls over remote meters can reduce the likelihood of fraud and waste. (page 13)

Postage metering data used by the Division to generate billings contained significant system errors. Moving postage meters resulted in duplicated charges and flawed counts of the amount of mail processed. Transactions amounting to over $756,000 were incorrectly recorded shortly after midnight and led to billing inaccuracies. This caused the Division to absorb some of these transactions as a loss. The Division billed customer agencies for the remainder of these transactions. Lastly, the Division gave inaccurate billing data to the Administrative Services Division. This caused $83,000 in underbillings and $59,000 in overbillings. This also led the Division to bill for nearly $178,000 of work that it could not provide any documentation for. (page 19)

Suspicious transactions created additional billing inaccuracies. Some of these inaccuracies caused customer agencies to overpay, while others led to underbilling. For instance, 6 of 10 unusually large, suspicious metering transactions described above were double-billed. On the other hand, the Division did not bill for 2 of 11 tested remote meter transactions. (page 21)

The formula the Division used to calculate its production charges contained an error that caused the Division to systematically undercharge for production work. This caused the Division to undercharge for any production job larger than 1,000 pieces of mail. (page 22)