

# STATE OF NEVADA

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## Performance Audit

Department of Administration  
Nevada State Library and Archives

Mail Services

2013



Legislative Auditor  
Carson City, Nevada

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# Audit Highlights



Highlights of performance audit report on the Nevada State Library and Archives, Mail Services issued on January 7, 2014. Legislative Auditor report # LA14-10.

## Background

The Nevada State Library and Archives (NSLA) is a division of the Department of Administration and is responsible for providing full access to a range of information services that enhance the quality of life for all and center on creating an educated and enlightened citizenry, while supporting the interests of the State.

Support for NSLA's activities are recorded in six budget accounts. NSLA's funding sources for fiscal year 2013, consist mainly of service fees, general fund appropriations, and receipts from other governments. Of the almost \$13 million in total funding sources, nearly \$6.4 million or 51% were derived from mail service delivery. Further, in fiscal year 2013, NSLA had expenditures of \$12.5 million of which \$5 million or 40% related to postage and parcel fees.

Mail service can be grouped into three categories: interdepartmental mail is collected and delivered from one state agency to another; postal mail is delivered by a third party; and production services include folding, inserting, and addressing envelopes.

In calendar year 2012, Mail Services processed over 14 million pieces of mail and 7 million pieces of production items. An administrative fee of roughly 18% is applied to all services and is used to fund operations.

## Purpose of Audit

The purpose of our audit was to determine if the process of billing state agencies for mail service was accurate and complete. Billing activities were reviewed for calendar year 2012.

## Audit Recommendations

This audit report contains two recommendations to improve oversight and control activities related to billing state agencies for mail service.

The NSLA accepted the two recommendations.

## Recommendation Status

The NSLA's 60-day plan for corrective action is due on April 3, 2014. In addition, the six-month report on the status of audit recommendations is due on October 3, 2014.

# Nevada State Library and Archives Mail Services

## Department of Administration

## Summary

Generally, Mail Services' billing process is reasonably accurate and complete; however, minor control weaknesses at Mail Services and the Administrative Services Division (ASD) of the Department of Administration could allow errors and omissions to occur and not be identified. Our review of billing documents revealed weaknesses that resulted in instances of omitted billings, duplicate charges, and improper amounts charged to state agencies for postage. Errors occurred because the process to compile and bill agencies for postage costs relies on spreadsheets and manual processes. About \$8,200 in over and under billings of state agencies occurred due mainly to formula and other errors noted on spreadsheets.

## Key Findings

Mail Services relies on multiple spreadsheets and manual operations to generate agency billings. These processes are inherently susceptible to error. Some cells in spreadsheets we examined had inaccurate or non-existent totals and inconsistent formulas. In addition, some data entered manually was inaccurate and resulted in improper totals and amounts billed. These errors occurred due to the cumbersome process and inadequate review and reconciliation. (page 7)

During calendar year 2012, Mail Services and ASD sent over 3,100 billings totaling over \$6 million for postage, parcel, and production services. Billings are sent monthly to all user agencies who accumulate fees in excess of \$3. (page 7)

Our review of monthly spreadsheets for all of calendar year 2012 found some agencies were billed inaccurate amounts or were not billed at all. Examples of errors include:

- Six user agencies with fees totaling nearly \$4,200 were not billed because spreadsheet formulas were missing.
- Six agency bills included duplicate charges of about \$2,800 for postage and other fees because spreadsheet formulas were incorrect.
- In one instance, an agency was overbilled when the spreadsheet cell containing the number of mail pieces was added to the cost of postage. This formula error resulted in an overbilling of almost \$1,200. (page 8)

Additional minor billing errors occurred when data recorded on logs was manually transferred into the mail management information system incorrectly. We tested a random sample of 40 billing claims and found 5 with minor billing errors. Billing errors included the transposition of numbers, posting to the wrong budget account, and omitting the number of pieces processed. (page 9)

Although the errors found were not significant, larger errors could occur if controls are not strengthened. Posting to the wrong budget account and omitting the number of mail pieces processed could impact user agencies' budget planning and oversight. Revising written policies and procedures to include a periodic review of data manually input by a person independent of the process could help to identify errors. (page 9)

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Legislative Commission  
Legislative Building  
Carson City, Nevada

This report contains the findings, conclusions, and recommendations from our performance audit of the Nevada State Library and Archives, Mail Services. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes two recommendations to improve controls over the process of issuing billing claims for mail service. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA  
Legislative Auditor

October 14, 2013  
Carson City, Nevada

# Nevada State Library and Archives Mail Services Table of Contents

Introduction .....	1
Background.....	1
Scope and Objective .....	6
Enhanced Controls Over Billing Claims Can Increase Accuracy .....	7
Spreadsheets and Manual Processes Increase Risk of Errors .....	7
Appendices	
A. Audit Methodology.....	10
B. Response From the Nevada State Library and Archives .....	12

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# Introduction

## Background

The Nevada State Library and Archives (NSLA) is a division of the Department of Administration and is responsible for providing full access to a range of information services that enhance the quality of life for all and center on creating an educated and enlightened citizenry while supporting the interests of the State of Nevada. In support of this mission, the agency serves government, libraries, business, and citizens by providing a range of information and services through several units:

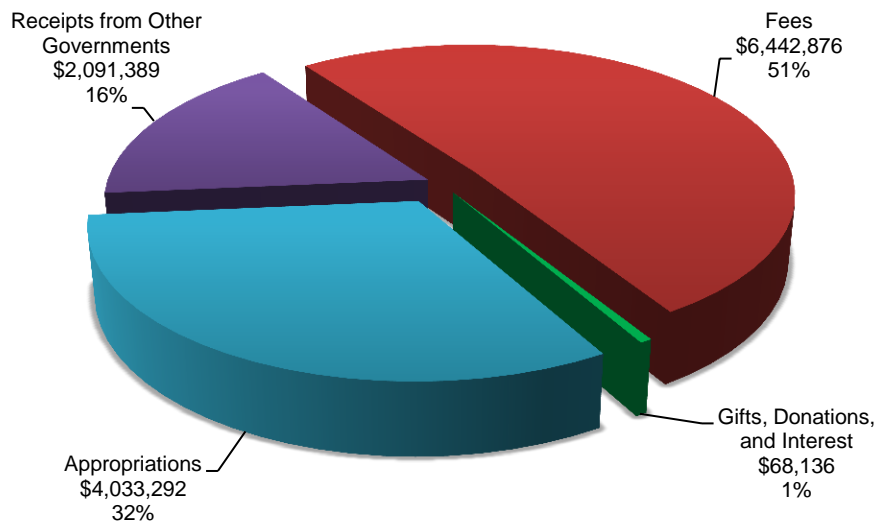
- Nevada State Library,
- Statewide Library Development Services,
- State Archives,
- State Records Center,
- Cooperative Libraries Automated Network, and
- State Mail Services.

The NSLA's central administrative office is located in Carson City. On July 1, 2013, NSLA had 51.26 legislatively approved full-time equivalent positions; 20 positions are within the Mail Services unit.

Support for NSLA's activities are recorded in six budget accounts. As seen in Exhibit 1, NSLA's funding sources for fiscal year 2013, consist mainly of service fees, general fund appropriations, and receipts from other governments including federal grant funds. Of the almost \$13 million in total funding sources, nearly \$6.4 million or 51% were derived from mail delivery. Further, Exhibit 2 details fiscal year 2013 expenditures of \$12.5 million. Approximately \$5 million or 40% related to postage fees.

**Revenues by Type  
Fiscal Year 2013**

**Exhibit 1**



Source: State accounting system.

**Expenditures by NSLA Activity and Category  
Fiscal Year 2013**

**Exhibit 2**

	State Archives	Mail Services	State Library	Total	Percent of Total
Personnel	\$ 807,869	\$1,024,198	\$1,217,413	\$3,049,480	24%
Operating & Equipment	94,089	347,640	1,310,042	1,751,771	14%
Postage	-	4,952,642	-	4,952,642	40%
Library Development & Databases	-	-	2,314,446	2,314,446	19%
Cost Allocations	50,824	94,148	126,404	271,376	2%
Miscellaneous <sup>(1)</sup>	102,981	51,005	6,649	160,635	1%
<b>Totals</b>	<b>\$1,055,763</b>	<b>\$6,469,633</b>	<b>\$4,974,954</b>	<b>\$12,500,350</b>	<b>100%</b>

Source: State accounting system.

<sup>(1)</sup> Miscellaneous expenses include travel, information systems, federal grants and paybacks, and expenditures for the archive board.

**Mail Services**

Mail Services was integrated into NSLA during the 2011 Legislative Session when the Buildings and Grounds Division was transferred to the Division of Public Works. Mail Services picks up mail from state agencies, processes it, and then delivers it to other state agencies (interdepartmental mail), the United States Postal Service (USPS), United Parcel Service, or Federal Express. The

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agency recovers postal and contract charges applied to mail and parcel and assesses an administrative fee for handling mail.

Mail Services receives postage discounts from the USPS for processing and delivering mail to them in a certain manner. Per budget documents, Mail Services saved the State over \$1.1 million dollars in postage costs during fiscal year 2012.

Services provided can be grouped into three categories: interdepartmental, postage, and production. For interdepartmental mail, Mail Services collects, sorts, and delivers mail from one state agency to another. Mail from Northern Nevada locations is sent via a contract carrier to the office located in Las Vegas who distributes mail to state agencies located in Southern Nevada.

Postage mail may be one of the following:

- Bulk: Business envelopes or post cards which are bar coded and sorted by zip code. This mail is electronically processed, tracked, and connected to an automated mail counting and sorting system. The USPS offers postage discounts for mail it receives that is bar coded and pre-sorted.
- Business Reply: Some state agencies provide services to Nevada's citizens and businesses using postage-paid return envelopes. The USPS delivers business reply envelopes to Mail Services and assesses the appropriate postage fees.
- Postage Due: Occasionally, mail intended for state agencies will arrive with insufficient postage. The USPS will deliver this mail to Mail Services and assess the appropriate postage fee.
- Permit: In certain instances, state agencies can apply for postage permits. Postage permits allow mail to be sent at a slightly lower rate than the standard postal rate. Agencies use pre-printed envelopes with special bar-coding and the permit number pre-printed on the envelope.
- Express Mail: Interdepartmental mail weighing two or more pounds, is sent via Express Mail for an additional fee.

Finally, Mail Services folds, inserts, and addresses envelopes for a fee. Production services are charged by the number of pieces processed and the type of service provided.

For calendar year 2012, Mail Services processed over 22 million pieces of mail and parcel. Exhibit 3 shows the number of mail pieces processed by type and Exhibit 4 shows the related cost of processing mail and parcel for calendar year 2012.

**Volume of Mail and Parcel  
Calendar Year 2012**

**Exhibit 3**

<b>Month</b>	<b>United States Postal Service</b>	<b>Federal Express</b>	<b>United Parcel Service</b>	<b>Production <sup>(1)</sup></b>	<b>Total Pieces Processed</b>
January	1,403,773	948	2	831,300	2,236,023
February	1,112,006	414	6	527,585	1,640,011
March	1,249,121	492	-	698,474	1,948,087
April	1,155,698	416	-	557,023	1,713,137
May	1,103,839	466	3	492,554	1,596,862
June	1,171,315	445	1	619,999	1,791,760
July	1,135,204	386	2	550,190	1,685,782
August	1,092,286	392	4	539,939	1,632,621
September	1,516,514	348	-	988,503	2,505,365
October	1,205,222	346	-	627,476	1,833,044
November	972,283	390	1	477,046	1,449,720
December	1,200,439	376	2	783,498	1,984,315
<b>Totals</b>	<b>14,317,700</b>	<b>5,419</b>	<b>21</b>	<b>7,693,587</b>	<b>22,016,727</b>

Source: Administrative Services Division's billing database.

<sup>(1)</sup> Production fees are charged for folding, inserting, and addressing mail prior to the application of postage fees. Rates charged are based on volume and the service provided.



## Postage, Parcel, and Administrative Fees for Items Processed Calendar Year 2012

Exhibit 4

Month	United States Postal Service	Federal Express Fees	United Parcel Service Fees	Total Postage and Parcel Fees	Production Fees Charged	Mail Services Administrative Fees <sup>(1)</sup>
January	\$ 551,301	\$ 5,287	\$ 83	\$ 556,671	\$ 13,481	\$ 96,687
February	456,735	3,257	352	460,344	8,877	78,091
March	518,542	3,750	-	522,292	12,790	88,193
April	478,935	3,486	-	482,421	10,606	80,575
May	455,577	4,520	325	460,422	10,082	78,514
June	489,763	3,774	60	493,597	14,380	72,307
July	454,830	2,998	79	457,907	11,497	76,550
August	468,374	2,741	242	471,357	11,662	78,408
September	559,273	2,713	-	561,986	16,942	94,458
October	493,783	3,016	-	496,799	12,697	84,529
November	457,507	3,496	28	461,031	10,716	73,428
December	494,176	3,070	112	497,358	16,418	80,548
<b>Totals</b>	<b>\$5,878,796</b>	<b>\$42,108</b>	<b>\$1,281</b>	<b>\$5,922,185</b>	<b>\$150,148</b>	<b>\$982,288</b>

Source: Administrative Services Division's billing database.

<sup>(1)</sup> Typically Mail Services charges 18% of the postage or parcel fee to process items for user agencies. The total here may not equal exactly 18% of total postage and parcel fees charged due to a rate change during calendar year 2012 and a reduced rate paid by the Department of Employment, Training and Rehabilitation.

A small number of state agencies account for the majority of Mail Services' billings. As seen in Exhibit 5, about 83% of mail and parcel charges for calendar year 2012 were billed to the following agencies.

## Top Agencies Using Mail Services Calendar Year 2012

Exhibit 5

Agency	Mail, Parcel, and Production Pieces	Percent of Total
Department of Motor Vehicles, Central Services	4,689,828	21%
Division of Welfare and Supportive Services, Administration	4,011,918	18%
Department of Employment, Training and Rehabilitation, Unemployment	3,566,366	16%
Department of Taxation	2,573,944	12%
Department of Employment, Training and Rehabilitation, Mail Account	1,030,118	5%
Secretary of State	1,024,516	5%
Department of Wildlife	443,333	2%
Department of Motor Vehicles, Mail Account	369,055	2%
Division of Welfare and Supportive Services, Food Stamps	270,388	1%
Department of Employment, Training and Rehabilitation, Employment Security Division	223,910	1%

Source: Administrative Services Division's billing data.

**Scope and Objective**

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit included Mail Services' billing activities during calendar year 2012; however, certain processes related to verifying agency data occurred through January 2013. Our audit objective was to determine if the process of billing state agencies for mail service was accurate and complete.

# Enhanced Controls Over Billing Claims Can Increase Accuracy

Enhancing controls over the billing process can help ensure billings for postage and shipping services are proper. Generally, Mail Services' billing process is reasonably accurate and complete; however, minor control weaknesses at Mail Services and the Administrative Services Division (ASD) of the Department of Administration could allow errors and omissions to occur and not be identified. Our review of billing documents revealed weaknesses that resulted in instances of omitted billings, duplicate charges, and improper amounts charged to state agencies for postage. Errors occurred because the process to compile and bill agencies for postage costs relies on spreadsheets and manual processes. About \$8,200 in over and under billings of state agencies occurred due mainly to formula and other errors noted on spreadsheets.

## **Spreadsheets and Manual Processes Increase Risk of Errors**

Mail Services and ASD rely on multiple spreadsheets and manual operations to generate agency billings. These processes are inherently susceptible to error. The spreadsheets we examined had inaccurate or non-existent totals and inconsistent formulas. In addition, some data entered manually was inaccurate and resulted in improper totals and amounts billed. These errors occurred due to the cumbersome process, and inadequate review and reconciliation.

During calendar year 2012, Mail Services and ASD sent over 3,100 billings totaling over \$6 million for postage, parcel, and production services. Billings are sent monthly to all user agencies who accumulate fees in excess of \$3.

### Data Compilation and Billing Process is Cumbersome

Mail Services collects data to generate agency bills from several sources. The majority of mail is processed through electronic postage meters and sorters that apply postage, tabulate daily mail pieces and postage totals, and sort the mail in a manner eligible for postage discounts from the United States Postal Service. Meters accumulate mail data for the month by tracking the applicable agency name and budget account, the number of pieces processed, and postage applied. Other mail, including express mail, business reply, postage due, and parcel packages are processed manually and daily activity is logged by Mail Services' personnel.

Data from both sources are input and tracked in a separate mail management system used for tabulating daily and monthly totals regarding mail and parcel activity. Data from the mail sorter is obtained from monthly reports which compile daily mail activity. Additionally, daily logs detailing all other mail and parcel activity are manually entered into this system each day. This mail management system compiles the data from all mail sources and produces a spreadsheet detailing each agency's mail counts and postage, parcel, and production fees for the month.

Mail Services provides monthly data regarding mail and parcel activity from the mail management system to ASD to facilitate agency billings. Staff at ASD sort, combine, and compile this data into another spreadsheet which is used to prepare agency bills.

Multiple spreadsheets and manual input processes are susceptible to errors. An analysis of the spreadsheets identified formulas were not consistently applied, certain amounts were subtracted twice, and row and column totals did not agree. Consequently, some agencies were billed inaccurate amounts or were not billed at all. The following are examples of these errors:

- Six user agencies with fees totaling nearly \$4,200 were not billed because spreadsheet formulas were missing.
- Six agency bills included duplicate charges of about \$2,800 for postage and other fees because spreadsheet formulas were incorrect.

- 
- In one instance an agency was overbilled when the spreadsheet cell containing the number of mail pieces was added to the cost of postage. This formula error resulted in an overbilling of almost \$1,200.

Some errors noted above could have been detected if ASD management reviewed and monitored the billing process. Additionally, reconciling totals of amounts billed by ASD to information received from Mail Services would help to ensure billings were complete. Since the process to bill agencies is bifurcated, strengthening controls at ASD will provide assurance to Mail Services personnel that billings are proper.

#### Manual Logs and Input Contribute to Billing Errors

Additional errors occurred when data recorded on logs was manually transferred into the mail management information system incorrectly. We tested a random sample of 40 billing claims and found 5 with minor billing errors. Billing errors included the transposition of numbers, posting to the wrong budget account, and omitting the number of pieces processed.

Although the errors found were not significant, larger errors could occur if controls are not strengthened. Posting to the wrong budget account and omitting the number of mail pieces processed could impact user agencies' budget planning and oversight. Revising written policies and procedures to include periodic review of input to logs by a person independent of the process could help to identify errors.

#### **Recommendations**

1. Work with Administrative Services Division to improve controls over billings by implementing management review, monitoring, and reconciliation processes.
2. Enhance written policies and procedures to include periodic reviews of data manually input from logs and reports.

# Appendix A

## Audit Methodology

To gain an understanding of the NSLA and the Mail Services program, we interviewed agency staff, reviewed statutes, regulations, and policies and procedures significant to the NSLA's and Mail Services operations. We also reviewed financial reports, prior audit reports, budgets, minutes of various legislative committees, and other information describing the activities of the agency. Furthermore, we documented and assessed certain Mail Services internal controls over processing state mail and billing for services.

To verify the accuracy of agency data we obtained monthly spreadsheets for all of calendar year 2012 prepared by Mail Services and the Administrative Services Division. We reviewed spreadsheets for the year for duplicate, illogical, and incomplete billing entries. To ensure the completeness of the spreadsheets, we selected, without prejudice, a sample of 25 billing documents incorporating every month in our scope and compared certain information to the spreadsheets.

To verify the completeness and accuracy of postage costs billed and the number of pieces recorded, we randomly selected a sample of 40 billing claims. ASD prepared 3,187 billing claims which totaled \$6.1 million in charges during calendar year 2012. The data on the billing claims was compared to supporting documentation including postage meter and sorting machine reports, USPS reports, Federal Express invoices, and manual logs. Bills were also reviewed for mathematical accuracy.

To verify postage costs incurred by Mail Services were subject to billing we discussed the process of monitoring postage expense and related revenues with ASD personnel. In addition, we reviewed Mail Services processes for monitoring and reviewing

postage expense reports provided by the United States Postal Service.

Our audit work was conducted from October 2012 to August 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Administrator of the Nevada State Library and Archives. On October 2, 2013, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix B which begins on page 12.

Contributors to this report included:

Stephany Gibbs, CPA, CGFM  
Deputy Legislative Auditor

Shannon Ryan, CPA  
Audit Supervisor

# Appendix B

## Response From the Nevada State Library and Archives

Brian Sandoval  
Governor



Jeff Mohlenkamp  
Director

Daphne DeLeon  
Division Administrator

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DEPARTMENT OF ADMINISTRATION  
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TO: Paul V. Townsend, CPA  
Legislative Auditor

FROM: Daphne O. DeLeon, CA   
Division Administrator/State Librarian

Date: October 14, 2013

RE: NSLA Draft Audit Report Response

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The Nevada State Library and Archives (NSLA) was given a copy of the draft audit report on September 24, 2013. NSLA accepts the audit recommendations listed in the report (Attachment 1). As soon as staff from the Mail Services program and the Administrative Services Division (ASD) was made aware of these recommendations they addressed them by reviewing existing procedures and revising them as needed.

The Mail Services program revised the policies and procedures for accounts receivable and billing. Revised policies and procedures are attached (Attachment 2). Below are some of the additions that the Mail Services program has already begun implementing.

- A comparison of totals from the original back up to the working billing spreadsheet that produces the billing claims and back up documentation.
- Postage-meter-balances are recorded on the last day of each month to verify and compare the total amount of postage spent thru each meter, to the total amount we bill out.
- We have begun to periodically review and compare manual entries of input reports to the keyed-in data derived from these entries.

The ASD did a complete review of all SFY13 billings. This review resulted in some supplemental billings for missed items and corrected billings for errors on bills that had been distributed to Mail Room customers.



Additionally, ASD has taken the following actions to preclude these errors in the future and to ensure that all amounts are billed correctly from data provided by the Mail Services program. The following comparison or checks have been added to the Mail Services billing process:

- A comparison of totals from the original back up to the working billing spreadsheet that produces the billing claims and back up documentation.
- A comparison of the monthly billed totals from the original data and billing spreadsheet to monthly totals added to the Accounts Receivable Log.
- A comparison of the amount billed to what was actually received through DAWN by document number. (This will alert us to any possible refunds or balances owed, due to clerical errors in document processing)

These were successful tested when the August 2013 Mail Services bills were processed. Updated ASD procedures for processing Mail Services monthly billings are attached (Attachment 2).

## Nevada State Library and Archives Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Work with the Administrative Services Division to improve controls over billings by implementing management review, monitoring, and reconciliation processes.....	<u>X</u>	<u>          </u>
2. Enhance written policies and procedures to include periodic reviews of data manually input from logs and reports .....	<u>X</u>	<u>          </u>
TOTALS	<u>    2    </u>	<u>    0    </u>