

Audit Highlights



Highlights of Legislative Auditor report on the State Mail Services, issued on February 12, 2001.
Report # LA02-01.

Purpose of Audit

The purpose of this audit was to determine the extent to which the State has maximized savings from consolidating and automating its mail operations. Our audit included the activities of State Mail Services related to processing state mail during fiscal year 2000.

Audit Recommendations

This audit report contained two recommendations to reduce the state's postage costs. The first recommendation is to determine the feasibility of processing mail for other state agencies, universities, major state contractors, and non-profit organizations providing services to the State. The second recommendation is to analyze the costs and benefits of sorting a greater percentage of mail to 5-digits.

The agency accepted both audit recommendations.

Status of Recommendations

The Department of Administration submitted the six-month report on the status of audit recommendations on November 8, 2001. The report indicated progress had been made on both recommendations.

The Department of Administration found that the Buildings and Grounds Division had contacted various agencies and organizations not currently using the state's mail services. Discussions were held with PERS, UNR, WNCC, PEBP, and the state's medical benefits administrator about the possibility of having their mail services provided by the State. WNCC was interested in using the state's mail services and the Division would be sending them a proposal. Several of the entities indicated that they were currently under contract with outside vendors, but would look into the possibilities in the future. Others declined further consideration due to circumstances such as additional cost, timeliness of processing, or security concerns.

The Department of Administration also indicated that the Division was in the process of analyzing its mail operations, including the cost and benefits of sorting mail to 5-digits.

State Mail Services

Department of Administration Buildings and Grounds Division

Results in Brief

The State has realized significant savings from consolidating and automating its mail operations in Carson City. For the 1999-2000 biennium, Mail Services saved more than \$1 million in postage costs by taking available discounts over the full first-class postage rate. Most of these savings have occurred because of Mail Services' efforts to consolidate and automate its operations, as recommended in our 1993 audit. By acquiring mail processing equipment from the Department of Motor Vehicles and Public Safety during the consolidation, Mail Services has been able to automate its process to take advantage of postage discounts offered by the United States Postal Service (USPS). Opportunities for additional savings are possible through further consolidation in northern Nevada and by seeking greater postage discounts.

Principal Findings

In fiscal year 2000, Mail Services saved about \$623,000 by taking automation discounts on 8.7 million pieces of mail. In contrast, Mail Services did not take any automation discounts on about 2.6 million pieces of mail it processed in 1992. At that time, Mail Services contracted with a presort company to process its outgoing mail. Although this company offered postage discounts, the State realized savings of only \$24,000 in fiscal year 1992 after paying the presort company's fees.

Our 1993 audit estimated the State could save \$380,000 per biennium if Mail Services obtained a barcoder and the state's mail operations in Carson City were consolidated. This savings estimate has been exceeded because of 1) a significant increase in volume of state mail, 2) improvements in the percentage of mail that is machine readable, and 3) greater discounts offered by the USPS for entities that automate their mail operations.

Further consolidation opportunities exist with the University and Community College System of Nevada, which generates mail volume of about one million pieces annually in northern Nevada. The University of Nevada, Reno, pays 30.5 cents to mail its first-class letters through a presort vendor, whereas Truckee Meadows and Western Nevada Community Colleges pay the full rate of 33 cents.

Other consolidation opportunities include entering into agreements with the Public Employees' Retirement System of Nevada, state contractors, and non-profit entities that provide services to Nevada. For instance, the Public Employees' Benefits Program third-party administrator, UICI Administrators, mails hundreds of thousand of first-class letters annually at the full rate of 33 cents. Because Mail Services did not process this mail, the opportunity to share about \$35,000 in discounts was lost during fiscal year 2000.

Additional savings are possible if Mail Services takes steps to achieve greater discounts than currently taken. During fiscal year 2000, only 20% of first-class letters were sorted by a 5-digit ZIP code and mailed at the 5-digit automation rate of 24.3 cents per piece. Instead, most letters were sorted by the first three digits of the ZIP code and mailed at a higher rate of 26.1 cents. The State could realize additional discounts of \$48,000 annually if 50% of the first-class letters are sent at the lower 5-digit rate.