



Testimony

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Committee on Government Reform
House of Representatives

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DECEPTIVE MAIL

Consumers' Problems Appear Substantial

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Deceptive Mail: Consumers' Problems Appear Substantial

In response to requests from three congressional subcommittees, GAO obtained information on the extent and nature of consumers' problems with deceptive mail and identified initiatives various federal agencies and other organizations have made to address deceptive mail problems and educate consumers. Examples of deceptive mail include sweepstakes, chain letters, cashier's check look-alikes, work-at-home schemes, and fraudulent charity solicitations.

Officials in various agencies and organizations said that comprehensive data on the full extent of consumers' deceptive mail problems were not available mainly because consumers often did not report their problems and no centralized database existed from which such data could be obtained. However, data GAO collected from various sources suggested that consumers were having substantial problems with deceptive mail.

- Based on a GAO sponsored November 1998 statistically generalizable sample of the U.S. adult population, GAO estimates that about half of the adult population believed that within the preceding 6 months, they had received deceptive mailed sweepstakes material or cashier's check look-alikes.
- Officials from the Federal Trade Commission (FTC), Postal Inspection Service, and state Attorneys General offices estimated that in fiscal year 1998, about 10,400 deceptive mail complaints led to or initiated about 100 law enforcement actions.
- For the period October 1, 1997, through March 31, 1999, FTC received over 18,000 deceptive mail complaints, of which about 2,700 (15 percent) reported consumer payments of about \$4.9 million. Also, the Postal Inspection Service received over 16,700 complaints on fraud and chain letters, of which about 3,000 (18 percent) reported consumer fraud losses of about \$5.2 million. The Inspection Service also had over 1,800 open investigative cases on deceptive mail during fiscal year 1998.

Various federal agencies and other organizations have undertaken efforts to address consumers' deceptive mail problems and educate them about such problems. For example, FTC established a national toll-free hotline for receiving deceptive mail and other complaints. One joint effort was Project Mailbox, which involved such organizations as FTC, Postal Inspection Service, and various state Attorneys General. These organizations initiated over 200 law enforcement actions against companies and individuals that used the mail to allegedly defraud consumers.

Deceptive Mail: Consumers' Problems Appear Substantial

Mr. Chairman and Members of the Subcommittee:

We are pleased to have this opportunity to discuss matters related to deceptive mail marketing practices, which have been used by various organizations and individuals to induce consumers to purchase goods and services or send money for misrepresented purposes. My statement will include a brief summary of our previous testimony on the extent and nature of problems that consumers experienced primarily with mailed sweepstakes material.¹ Also, I will discuss our most recent efforts to obtain updated information that could indicate the extent and nature of problems that consumers may have experienced with various types of mailed material that have been used to deceive, mislead, or fraudulently induce them into purchasing goods or services. This type of mail, known as deceptive mail, includes sweepstakes and other types of mailed material, such as lotteries and chain letters. Finally, I will provide information on initiatives in which various federal agencies and other organizations have participated to address consumers' problems with deceptive mail marketing practices and help educate consumers about potential problems that could occur with such practices.

Our most recent work on deceptive mail was done in response to your November 1998, request as well as an October 1998, request from the Permanent Subcommittee on Investigations and the Subcommittee on International Security, Proliferation and Federal Services, Senate Committee on Governmental Affairs. We are also providing copies of our statement to the chairs of the two Senate subcommittees.

Mr. Chairman, as we agreed, the primary objective for our most recent work was to obtain updated available information on the extent and nature of consumers' problems with various types of deceptive mail. Also, we obtained updated available information on efforts by various federal, state, local, and nongovernmental organizations to address consumers' deceptive mail problems and educate them about possible problems that could occur with deceptive mail marketing practices. In addition, through an outside contractor, we conducted a survey to obtain opinions from the U.S. adult population about specific types of deceptive mail.

We did our work from November 1998 through July 1999 in accordance with generally accepted government auditing standards. We obtained comments on a draft of this testimony from the Federal Trade Commission

¹ Proposed Legislation: Issues Related to Honesty in Sweepstakes Act of 1998 (S. 2141) (GAO/T-GGD-98-198, Sept. 1, 1998).

(FTC) and the U.S. Postal Service, including the Postal Inspection Service and the Consumer Advocate. We included their comments where appropriate. We also arranged for the various state, local, and nongovernmental organizations that provided us information to review relevant sections of this testimony. We incorporated their technical comments where appropriate. Additional information about our approach is included in attachment I to this statement.

Background

As you are aware, Mr. Chairman, since the summer of 1998, much attention has been focused on consumers' problems with deceptive mail. Various activities, including specific legislative proposals and hearings, have raised congressional and public awareness about problems that some consumers have experienced as a result of deceptive mail marketing practices.

A recent example of such an activity was the May 1999 approval by the Senate Governmental Affairs Committee of proposed legislation entitled "Deceptive Mail Prevention and Enforcement Act" (S. 335), which was introduced in February 1999, by Senator Susan Collins. In her introductory remarks, Senator Collins indicated that the proposed legislation was generally designed to help ensure that organizations that used various types of promotional mailed material, such as sweepstakes, were as honest and accurate as possible in their dealings with consumers. Provisions in the proposed legislation (1) authorized financial penalties against organizations that did not comply with proposed requirements, (2) authorized specific law enforcement actions, including the issuance of subpoenas, that the Postal Inspection Service could use in combating deceptive mail marketing practices; and (3) provided assurance that the proposed legislation would not preempt state and local laws that were designed to protect consumers against deceptive mail marketing practices.

For a congressional hearing held in September 1998, we provided testimony in which we discussed information about consumers' problems with specific types of deceptive mail and some initiatives that were intended to help educate consumers about potential deceptive mail problems. We found that comprehensive data indicating the full extent of consumers' problems with mailed sweepstakes material and cashier's check look-alikes were not available. However, FTC and the Postal Inspection Service had some data on complaints that could indicate the nature of consumers' problems with deceptive mail. A sample of complaints from FTC showed that in many instances, consumers were required to remit money or purchase products or services before being allowed to participate in sweepstakes. Information about specific Postal Inspection Service cases that had been investigated largely involved

sweepstakes and cash prize promotions for which up-front taxes, fees, or insurance were required before consumers could participate in sweepstakes promotions.

In our previous testimony, we discussed two initiatives that were intended to address consumers' problems with deceptive mail. The initiatives included (1) Project Mailbox, which was established to help educate consumers and appropriately deal with organizations and individuals that attempted to defraud consumers through the use of mass mailings; and (2) a multi-state sweepstakes subcommittee that was designed to facilitate cooperation among states in dealing with companies that attempted to defraud consumers through the use of mailed sweepstakes material. With your permission, I would like to provide the Subcommittee a full copy of our previous testimony for inclusion into the record of today's hearing.

Extent and Nature of Consumers' Problems With Deceptive Mail

Comprehensive data that could indicate the full extent of consumers' problems with deceptive mail were not available. Various officials from the agencies and organizations we contacted told us that such data were unavailable mainly because consumers oftentimes did not report their problems and no centralized database existed from which comprehensive data could be obtained.

Due to the overall lack of comprehensive data, we contracted for a survey to obtain perspective on the extent to which consumers believed that they had received specific types of mailed material that appeared to them to be misleading or deceptive. Also, we identified two federal agencies—FTC and the Postal Inspection Service—that maintained some data that could provide insight into the nature of consumers' problems with deceptive mail. However, these data may include some duplicative complaints because some consumers who filed complaints may have done so with both agencies.

Opinion Survey on Specific Types of Deceptive Mail

To obtain perspective on American consumers' opinions about specific types of deceptive mail, we contracted with International Communications Research (ICR), a national market research firm, to perform a statistically generalizable sample of adults 18 years of age or older in the continental United States. The results of the survey, which was conducted in November 1998, indicated that 51 percent of the survey respondents believed that within the preceding 6 months, they had received mail involving sweepstakes or documents resembling cashier's checks, known as cashier's check look-alikes, that appeared to be misleading or deceptive. However, 45 percent of the respondents said they had not received such

mail and the remaining 4 percent were not sure, did not remember, or did not know.

Additional analysis of survey results indicated that the higher the educational levels of respondents, the more likely they were to believe that they had received these types of deceptive mail. The percentages of respondents who believed that they had received such mail were about:

- 43 percent for respondents with a high school education or less;
- 56 percent for those with some college education; and
- 62 percent for those with a completed college education or higher.

A similar trend was identified for respondents and their income levels in that at higher income levels, respondents were more likely to believe that they had received such mail. The percentages by income level included about:

- 32 percent for respondents whose annual income was less than \$15,000;
- 52 percent for respondents whose annual income ranged between \$15,000 and \$49,999; and
- 62 percent for respondents whose annual income was \$50,000 or more.

FTC's Consumer Information System Included Data That Could Indicate the Nature of Problems

For our updated work efforts, various officials and representatives of the agencies and organizations from which we obtained information again believed that the most appropriate source of consumer complaint data would be FTC's Consumer Information System (CIS). According to FTC officials, the purpose of CIS, which was first established around February 1997 and became fully operational in September 1997, was to collect and maintain various data related to consumers' complaints. FTC officials told us that CIS data are used primarily by law enforcement organizations and officials to assist them in fulfilling their law enforcement duties.

The CIS database contained a total of about 200 categories within which consumers' complaints were included. The categories covered a wide range of topics such as (1) creditor debt collection, (2) home repair, (3) investments, (4) health care, and (5) leases for various products and services, such as automobiles and furniture.

For the period October 1, 1997, through March 31, 1999, our analysis indicated that CIS included a total of 48,122 consumer complaints for

which the methods of initial contact with consumers were identified.² Such methods included mail; telephone; fax; printed material, such as newspapers and magazines; and the Internet. Of the 48,122 complaints, the largest number, 18,143, or about 38 percent, indicated that consumers were initially contacted through the mail. Of the 18,143 complaints, we found that in 10,145, or about 56 percent, of these complaints, companies had requested individual consumers to remit money. The total amount of money requested by the companies was reported to be about \$88.2 million.

Also, our review of the 18,143 consumer complaints showed that 2,715, or about 15 percent, of the consumers reported that they had remitted money to the companies. The total amount of money these consumers said they had paid was about \$4.9 million. The amounts of money individual consumers said that they had paid ranged from less than \$1 to over \$1 million. Of these 2,715 complaints, about:

- 50 percent were less than \$100;
- 35 percent were between \$100 and \$999;
- 10 percent were between \$1,000 and \$4,999; and
- 5 percent were \$5,000 or more.

The largest reported amount of money paid by a consumer was \$1,734,000. Available CIS information indicated that this complaint involved a consumer's concerns about a credit bureau referring inaccurate information to a debt collection agency.

In reviewing the 18,143 complaints in which consumers were initially contacted through the mail, we identified five CIS categories that included the highest number of consumer complaints, which totaled 10,776 complaints, or about 59 percent. The five categories included

- Telephone: pay per call/information services, which can involve consumer complaints about calls to publicly available telephone numbers, such as 1-900 numbers, for which consumers incur per-minute charges in return for information or entertainment. Also, complaints can involve unauthorized charges on consumers' telephone bills, also known as "cramming" (3,487 complaints).

² In order to obtain the most recent CIS data possible, we requested that FTC provide us with data for an 18-month period that, at the time of our request, extended from October 1, 1997, through March 31, 1999.

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- Telephone: carrier switching, also known as “slamming,” in which companies would switch consumers’ telephone services from one company to another without consumer authorization (1,051 complaints).
 - Prizes/sweepstakes/gifts, which can oftentimes involve consumer complaints about mailed material that solicit advance fees for consumers to be able to participate in a sweepstakes or contest (2,859 complaints).
 - Credit bureaus, which can generally involve consumer complaints about the methods by which such bureaus maintain and disseminate credit information (2,025 complaints).
 - Third party debt collection, which can involve consumer complaints about methods used by various companies or individuals to collect debts owed by consumers (1,354 complaints).

For the five CIS categories, we found that a total of 10,355 complaints, or about 96 percent, included comments that could provide insight into the nature of problems that consumers had experienced with deceptive mail. We randomly selected 20 consumer complaints from each of the 5 categories for a total of 100 complaints. A discussion of the types of comments in the five categories and some examples follow.

Two of the five CIS categories involved problems that consumers reportedly experienced with mailed material that involved various telephone services, including pay-per-call and specific information services as well as slamming and cramming. Generally, consumers’ comments in these two categories focused on complaints about unauthorized actions by companies in providing various telephone services, including (1) switching telephone services from one company to another without consumer authorization, (2) charging consumers for services they never requested, and (3) charging for services that consumers claimed were cancelled.

For the prizes/sweepstakes/gifts category, consumer comments focused on complaints about companies’ requirements for participating in sweepstakes. According to FTC, various requirements, such as advance payments, fees, or purchases of products, should not be required before consumers may participate in sweepstakes. Also, consumers complained about being required to call specific telephone numbers for which they were charged fees.

In the credit bureaus category, the comments included consumers’ complaints about inaccurate information on their credit reports. Also,

consumers expressed concerns about such issues as denial of credit and dissemination of credit information to companies and individuals without permission.

For the third party debt collection category, consumer comments focused generally on harassment that consumers reportedly experienced from debt collectors. Such harassment included being called nasty names, receiving numerous telephone calls, and being treated without dignity. Also, some consumers disputed owing specific debts or the amounts of the debts.

Postal Inspection Service
Consumer Complaint and
Investigation Databases

The Postal Inspection Service maintained two databases—the Fraud Complaint System (FCS) and the Inspection Service Data Base Information System (ISDBIS)—that included information related to consumers' problems with deceptive mail. FCS was designed to collect and maintain consumer complaint information about various types of alleged fraudulent activities, including those involving deceptive mail marketing practices. ISDBIS was designed to be a case-tracking system that recorded information related to specific cases that postal inspectors used as they investigated specific organizations or individuals involved in various mailing activities that were allegedly intended to defraud consumers, businesses, and the federal government.

Consumer Complaint Process

To gain a better understanding of how consumer complaints about deceptive mail were included in FCS, we obtained information about the overall process through which consumers could file complaints with the Postal Service. According to Postal Inspection Service officials, if consumers have concerns or wish to file complaints about material that they have received through the mail, consumers may visit or call their nearby Postal Inspection Service offices or postal facilities, which included post offices, stations, or branches. If consumers' concerns are related to mailed material that they believe is deceptive, misleading, or fraudulent, postal employees are expected to refer consumers to the Postal Inspection Service. The methods of these referrals generally include providing consumers with the telephone number or address of the appropriate local Postal Inspection Service office, the Internet website address of the Postal Inspection Service, or a Postal Inspection Service mail fraud complaint form. Also, Postal Inspection Service officials told us that in some cases, to provide additional assistance to consumers, postal employees may offer to forward the questionable mailed material directly to the Postal Inspection Service.

We visited a total of 15 postal facilities to observe how postal employees referred consumers to the Postal Inspection Service. The facilities

included post offices and stations in the metropolitan areas of Dallas, Texas; Los Angeles, California; and Washington, DC. At the facilities, we asked postal employees working at counters how to handle mail believed to be deceptive. At 8 of the 15 facilities we visited, postal employees appropriately referred us to the Postal Inspection Service. At the 7 remaining facilities, postal employees either referred us to organizations other than the Postal Inspection Service or were unable to provide any guidance. For example, two postal employees referred us to a national toll-free 1-800 number (i.e., 1-800-ASK-USPS).³ According to postal officials, consumers could reach the Postal Inspection Service through 1-800-ASK-USPS.

We made three calls to 1-800-ASK-USPS to determine whether consumers could reach the Postal Inspection Service through this number. During one call, the responding customer service representative provided us with the telephone numbers of both the local consumer affairs office and Postal Inspection Service office. During the remaining calls, the representatives either provided us the telephone number for the local consumer affairs office or the address of the Direct Marketing Association (DMA), which we were told could remove consumers' names from mailing lists.⁴

Postal Inspection Service's
Fraud Complaint System

We obtained FCS data for an 18-month period, (i.e., October 1, 1997, through March 31, 1999). The data we obtained focused on two of the four complaint categories within FCS—fraud and chain letters—because postal officials told us that these categories were most likely to include relevant information about consumers' problems concerning deceptive mail.⁵

Our analysis of FCS data indicated that the Postal Inspection Service had received 16,749 consumer complaints regarding fraud and chain letters. Complaints in the fraud category totaled 7,667, or about 46 percent, of the total complaints in these two categories, and 9,082 complaints, or about 54 percent, were included in the chain letter category.

³ The purpose of the 1-800-ASK-USPS number is to provide consumers with a quick means of obtaining assistance with and information about a wide range of postal issues, such as the hours of operation at specific postal facilities, mailing rates for packages, and appropriate ZIP codes.

⁴ DMA was established in 1917 as an international, nonprofit trade association whose primary objective was to serve its members in bringing about more effective direct marketing techniques. As of June 1999, DMA had about 4,500 member companies from the United States and 53 other nations. Examples of DMA members included catalogers, publishers, book and record clubs, financial service companies, manufacturers, and advertising agencies.

⁵ According to Postal Inspection Service officials, the other two FCS categories included (1) consumers' general inquiries or requests for information and (2) consumer complaint program, which involves complaints about such matters as fraud, bad business practices, or misunderstandings between consumers and companies.

According to FCS data, no monetary losses were reported for the 9,082 complaints in the chain letter category. However, for the 7,667 complaints in the fraud category, a total of about \$5.2 million in monetary losses was reported by consumers. These losses were reported in 2,976, or about 18 percent, of the 16,749 fraud and chain letter complaints. Also, the 2,976 complaints that cited losses amounted to about 39 percent of the 7,667 complaints in the fraud category. The remaining 4,691 fraud complaints, or about 61 percent, cited no monetary losses.

For the 2,976 fraud complaints that cited monetary losses, the amounts of money individual consumers said that they had paid ranged from less than \$1 to over \$365,000. Of these complaints, about:

- 55 percent were less than \$100;
- 29 percent were between \$100 and \$999;
- 15 percent were between \$1,000 and \$29,999; and
- 1 percent were \$30,000 or more.

The largest monetary loss reported by a consumer was \$365,432. However, available FCS information was insufficient to describe the nature of the consumer complaint associated with this loss.

Similarly, we attempted to determine the nature of other consumer complaints in the fraud and chain letter categories using a random sample of 50 complaints with comments from each category for a total of 100 complaints. For these complaints, we found that the comments were unclear or lacked sufficient detail to provide insight into the nature of consumers' deceptive mail problems.

We recently learned from a Postal Inspection Service official that additional fraud complaints were contained in a third FCS category called "consumer complaint program." According to the official, for the period October 1, 1997, through March 31, 1999, the category included a total of about 48,000 complaints, which generally involved such matters as fraud, bad business practices, or misunderstandings between consumers and companies. Although the Postal Inspection Service was unable to specifically identify how many of these complaints involved fraud, officials determined that about 4,000, or about 8 percent, of these complaints were associated with active mail fraud investigations. The officials, however, could determine neither the number of investigations involved nor whether these complaints led to such investigations.

Postal Inspection Service's
Investigative Database

We obtained information from ISDBIS that focused on fraud against consumers. For fiscal year 1998, our analysis identified a total of 1,869 ISDBIS cases, which included 1,333 cases that carried forward into fiscal year 1998 from fiscal year 1997, and 536 cases that were opened during fiscal year 1998. The cases involved various types of allegedly deceptive mail marketing practices, including investment schemes, lotteries, fraudulent charity solicitations, work-at-home schemes or plans, and advance fee loan schemes.

By the end of fiscal year 1998, 576 cases had been closed, of which 293, or about 51 percent, involved four top deceptive mail marketing practices or schemes. The four were (1) lotteries, (2) telemarketing, (3) investment schemes, and (4) work-at-home plans.

During fiscal year 1998, the Postal Inspection Service initiated various law enforcement actions resulting from investigative cases involving the four top deceptive mail schemes. According to ISDBIS data, a total of 911 enforcement actions were taken, which included arrests, convictions, and other actions. Of the total actions taken, 480, or 53 percent, involved arrests and convictions. Also, ISDBIS data for sweepstakes showed that a total of 43 actions were taken.

Efforts by
Organizations
to Address Deceptive
Mail Problems and
Educate Consumers

For our most recent work, we obtained updated information on the two initiatives that we discussed in our previous testimony, namely Project Mailbox and the National Association of Attorneys General (NAAG)⁶ multi-state sweepstakes subcommittee. Also, we obtained updated information from various federal, state, and local agencies and nongovernmental organizations about their recent efforts to help educate and make consumers more aware of the potential problems that could result from deceptive mail marketing practices. These efforts involved activities that were initiated by various organizations, including FTC, the Postal Inspection Service, state Attorneys General offices, and nongovernmental organizations, such as the American Association of Retired Persons (AARP) and NAAG.

Project Mailbox

Project Mailbox was established to help educate consumers and appropriately deal with organizations, companies, and individuals that

⁶ NAAG is a professional association that was established in 1907. Its members include the Attorneys General of 50 states and chief legal officers for other jurisdictions, such as the District of Columbia and the Virgin Islands. The U.S. Attorney General is an honorary member of NAAG. NAAG's overall goals include (1) promoting cooperation and coordination on interstate legal matters and (2) increasing citizen understanding of the law and law enforcement's role to ensure both protection of individual rights and compliance with the law.

attempted to defraud consumers through the use of mass mailings. In fiscal year 1998, FTC, the Postal Inspection Service, and Attorneys General offices for various states initiated 203 law enforcement actions that targeted specific organizations, companies, and individuals that allegedly attempted to deceive, mislead, or defraud consumers through various mail marketing practices. The practices included a wide range of schemes, including not only sweepstakes, prize promotions, lotteries, advance fee loans schemes, and government look-alike mail, but also such schemes as guaranteed scholarships, vacation and travel packages, and fraudulent charity solicitations.

For the 203 law enforcement actions, FTC, the Postal Inspection Service, and various state Attorneys General offices provided us some information on 101, or about 50 percent, of the actions, which provided perspective on these actions. These federal and state organizations estimated that a total of about 841,000 consumers had purchased products and/or services from the organizations, companies, or individuals that were the targets of the law enforcement actions. Also, an estimated total of about \$424 million was identified as sales to consumers or funds consumers had paid to the targeted organizations, companies, or individuals. We have no information on the extent to which deceptive mail problems may have been involved with the total number of consumers identified and the payments made. However, FTC, the Postal Inspection Service, and various state Attorneys General offices estimated that about 10,400 consumer complaints led to or initiated the 101 law enforcement actions.

**NAAG Multi-State
Sweepstakes Subcommittee**

In February 1999, NAAG's Subcommittee on Sweepstakes and Prize Promotion convened a hearing in Indianapolis, Indiana. The purpose of the hearing was to gather information about sweepstakes promotions and create consensus on the best approaches for deterring and punishing those who participate in fraudulent sweepstakes activities. Witnesses at the hearing included representatives of the direct mail marketing industry, individual consumers from various states, federal government representatives, and experts from the academic community.

Based on information discussed at the hearing and lessons learned from years of investigations and litigation, the subcommittee generally recommended that the sweepstakes industry adopt specific voluntary practices to ensure that consumers are not misled. Some of the recommended practices included (1) clearly disclosing the odds of winning the sweepstakes or contest, (2) not representing or implying that ordering a product increases a consumer's chance of winning, and (3) having a

standard, simple, uniform means for entering sweepstakes both for consumers who place orders and those who do not.

Other Consumer Education
Activities of Federal, State,
Local, and
Nongovernmental
Organizations

FTC, the Postal Inspection Service, and various state, local, and nongovernmental organizations have either completed or initiated efforts to help educate consumers and raise their awareness about problems that could result from deceptive mail. These efforts range from the establishment of a national toll-free hotline to the publication of consumer awareness articles.

FTC Activities

FTC has initiated or participated in activities to help consumers deal with deceptive mail marketing practices. For example, FTC:

- established, on July 7, 1999, a national toll-free hotline (i.e., 1-877-FTC-HELP or 1-877-382-4357) that consumers could use to file complaints on various topics, including deceptive mail. According to FTC, the hotline is intended not only to make FTC more accessible to consumers who wish to file complaints but also to make consumer complaint data available to law enforcement agencies in the United States and Canada.
- maintains a website through which consumers may obtain information that can help them address potential problems associated with deceptive mail. This information covers topics ranging from prize offers to magazine subscription scams to receipts of unordered merchandise.

In addition, FTC officials told us that FTC has continued to work with other organizations, such as NAAG, to encourage these organizations to share consumer complaint information with FTC, so that more comprehensive data on consumer complaints can be centrally collected and maintained in FTC's Consumer Information System (CIS). CIS fraud consumer complaint data are made available to various law enforcement organizations through FTC's Consumer Sentinel website.

Postal Inspection Service
Activities

According to Postal Inspection Service officials, the Inspection Service's efforts to educate consumers are important to its continuing fight against deceptive mail marketing practices. These efforts range from national to local activities that are designed to help consumers avoid being victimized by deceptive mail marketing practices. For example, the Inspection Service:

- mailed out postcards in May 1993, to about 210,000 households in the United States, informing consumers that they had won prizes and asked consumers to call a telephone number. However, when consumers called

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the number, they reached the Inspection Service and were warned against responding to the postcards because similar solicitations are often used by companies to scam consumers.

- is developing another postcard mailing to alert consumers to potential problems that could be caused by deceptive mail and telemarketing and identify a national hotline through which consumers may file complaints. The postcards are to be distributed to about 114 million households nationwide in October 1999.
- distributed in December 1994, a video news release that was sent to various television news stations throughout the United States. The video included information on how consumers could identify whether elderly relatives were having problems in handling mailed material from organizations.
- is developing a video that will include information to help consumers avoid both problems with deceptive mail and other types of deceptive marketing practices via the telephone. The video is scheduled for distribution to about 16,000 public libraries around October 1999.

In addition, according to Postal Service field officials, the Service has and continues to help educate consumers and raise their awareness about deceptive mail practices. In many instances, postal field personnel work with their local postal inspectors to prepare news releases and make presentations before consumer groups.

State and Local Activities

Officials in the state and local organizations that we contacted cited the following examples of their efforts to help educate consumers about deceptive mail.

- Representatives from the Connecticut Office of the Attorney General have conducted half-day consumer education sessions for groups of senior citizens to provide them information about deceptive mail. Since January 1, 1999, the office has sponsored 4 sessions with about 1,000 consumers in attendance.
- Since January 1999, staff from Florida's Division of Consumer Services have spoken to consumer groups, many of which involved senior citizens, about fraud-related issues. These efforts focused on telemarketing fraud, but have also involved discussions about deceptive mail, including sweepstakes.

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- In April 1999, local consumer affairs staff from Montgomery County, Maryland, conducted an adult education class focusing on consumers' rights and responsibilities, but information was also provided on sweepstakes and fake award notification letters.
 - In the spring of 1999, the administrator of the Office of Consumer Affairs in Alexandria, Virginia, made a presentation on pyramid schemes received through the mail that pay commissions for recruiting distributors, not for making sales. The presentation was made to both staff in Alexandria's Office of Aging and local consumers.

Activities of Nongovernmental Organizations

Various nongovernmental organizations, including DMA, AARP, and Arizona State University, reported that to help educate consumers, these organizations offered conferences and seminars as well as distributed information on deceptive mail marketing practices. Representatives of the organizations identified several examples, which included

- DMA prepares and distributes action line reports on deceptive mail problems, as well as other marketing issues. These reports are distributed to approximately 800 to 900 consumer affairs professionals and press contacts who are encouraged to share the reports with consumers. A recent action line report, dated July 11, 1999, established a special Sweepstakes HelpLine, which is intended to help various caregivers, such as adult children, who care for elderly relatives; consumer affairs personnel; and social service professionals address problems some people may have with sweepstakes.
- AARP has conducted 26 training seminars throughout the United States that were attended by about 1,300 law enforcement professionals. The seminars were held during 1998 and provided the professionals with information on deceptive mail, including sweepstakes, prize promotions, and foreign lotteries.
- Arizona State University, in cooperation with AARP and the Office of the Arizona Attorney General, hosted a conference entitled "New Directions: Seniors, Sweepstakes and Scams." The conference, which was held in October 1998, was designed for individuals who have been and continue to be involved in consumer education and awareness efforts. Among the conference attendees were representatives from FTC, the Postal Inspection Service, and NAAG. Information on deceptive mail marketing practices was presented and attendees were encouraged to share this information with consumers.

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Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions you or the members of the Subcommittee may have.

**Contact and
Acknowledgment**

For future contacts regarding this testimony, please contact Bernard L. Ungar at (202) 512-8387. Individuals making key contributions to this testimony included Gerald Barnes, Anne Hilleary, Lisa Wright-Solomon, Anne Rhodes-Kline, and George Quinn.

Scope and Methodology

In developing the scope and methodology for our work, we first obtained a general description of the term “deceptive” as it could be applied to mailed material. According to FTC, mailed material would generally be considered deceptive if the material included a representation or practice or if the material omitted information that caused a consumer to be misled and eventually suffer some loss or injury, despite the fact that the consumer behaved reasonably under the circumstances.

Both FTC and the Postal Inspection Service identified various types of mailed material that have been used to induce consumers to remit money, pay upfront fees, or purchase goods or services through deceptive means. However, in many cases, the promised goods or services were not delivered or were not of the quality that consumers may have reasonably expected to receive. Some examples included

- lotteries from foreign countries or from states that did not have authorized lotteries.
- chain letters that required consumers to remit payments to participants in the chain letter scheme for which substantial financial returns were promised but never delivered.
- mailed material that involved various types of consumer credit schemes, such as loans, credit repair offers, and credit card solicitations, for which advance fees were required.
- requests for charitable donations from organizations that were not legitimate charities.
- mailed material that looks as if it has been distributed or endorsed by a government agency, also referred to as government look-alike mail.

In some instances, mailed material may be illegal in that it violates specific postal or other statutes. For example, chain letters that request money or other items of value and promise a substantial return to the participants are generally illegal. Such letters are considered a form of gambling and sending them through the mail violates section 1302 of Title 18 of the U.S.Code, the Postal Lottery Statute.

To obtain updated information about the extent and nature of consumers’ problems with deceptive mail, as well as consumer education efforts, we attempted to contact the 17 federal, state, and local agencies and nongovernmental organizations that we contacted for our September 1998

testimony. In our earlier work, we identified these agencies and organizations as those which had been involved in dealing with consumers' complaints about questionable or deceptive mail marketing practices involving mailed sweepstakes material and cashier's check look-alikes. The 17 agencies and organizations included 2 federal agencies—FTC and the Postal Inspection Service—as well as other state and local government agencies and nongovernmental organizations such as

- state attorneys general offices for such states as Florida and West Virginia;
- local government offices that handled consumer protection issues; and
- various nongovernmental organizations including (1) American Association of Retired Persons; (2) National Consumers League, which established National Fraud Information Center; and (3) Direct Marketing Association.

Based on our most recent work efforts, we obtained information from 12 of the 17 agencies and organizations, which are listed in attachment II to this statement. At the 12 agencies and organizations, we interviewed officials and reviewed documents to obtain available information about the extent and nature of consumers' deceptive mail problems and consumer education efforts. Also, we obtained and analyzed consumer complaint data from FTC and Postal Inspection Service databases. In addition, during the course of our work, we obtained from FTC, the Postal Inspection Service, and 45 state attorneys general offices information on specific law enforcement actions involving organizations, companies, and individuals that attempted to defraud consumers through the use of deceptive mail.¹

To obtain information about the consumer complaint process at the Postal Service, we interviewed postal headquarters officials in the Postal Inspection Service and the Postal Service's Office of Consumer Advocate. Also, we interviewed postal officials at various field locations in different parts of the country who were knowledgeable about the consumer complaint process. Specifically, we spoke with consumer affairs and marketing officials in postal district offices and inspectors in Postal Inspection Service offices located in the metropolitan areas of Dallas, Texas; Los Angeles, California; and Washington, DC. In addition, to obtain

¹ According to FTC, for Project Mailbox in fiscal year 1998, five states did not identify such actions. The states included Alaska, Louisiana, New Hampshire, Rhode Island, and Tennessee. Also, no such actions were identified for the District of Columbia.

insight into how the consumer complaint process was implemented, we visited 15 postal field facilities, including post offices and stations, that were located in the metropolitan areas of Dallas, Texas; Los Angeles, California; and Washington, DC. These locations were selected mainly because staff from our Dallas Regional Office, as well as headquarters staff, were available to conduct face-to-face meetings with appropriate postal field employees.

In addition, we had an outside contractor conduct a survey to obtain opinions from the U.S. adult population about specific types of deceptive mail. Through the survey, we attempted to determine whether survey respondents had received any mail delivered by the U.S. Postal Service within the last 6 months involving sweepstakes or documents resembling cashier's checks that the respondents believed were in any way misleading or deceptive.

We contracted with International Communications Research (ICR) of Media, Pennsylvania, a national market research firm, to administer our survey question, which was worded as follows.

“We would like to ask you a question concerning mail delivered by the U.S. Postal Service. Within the last 6 months, have you received any mail delivered by the U.S. Postal Service involving sweepstakes or documents resembling cashier's checks that you believe were in any way misleading or deceptive?”

A total of 1,014 adults (18 and older) in the continental United States were interviewed between November 18 and 22, 1998. The contractor's survey was made up of a random-digit-dialing sample of households with telephones. Once a household was reached, one adult was selected at random using a computerized procedure based on the birthdays of household members. The survey was conducted over a 5-day period, including both weekdays and weekends, and up to four attempts were made to reach each telephone number.

To ensure that survey results could be generalized to the adult population 18 years of age and older in the continental United States, results from the survey were adjusted by ICR to account for selection probabilities and to match the characteristics of all adults in the general public according to such demographic groups as age, gender, region, and education. Because we surveyed a random sample of the population, the results of the survey have a measurable precision or sampling error. The sample error is stated at a certain confidence level. The overall results of our survey question

regarding the public's opinion about misleading or deceptive mail are surrounded by 95 percent confidence levels of plus or minus 4 percentage points or less.

The practical difficulties of conducting any survey may introduce nonsampling errors. As in any survey, differences in the wording of questions, in the sources of information available to respondents, or in the types of people who do not respond can lead to somewhat different results. We took steps to minimize nonsampling errors. For example, we developed our survey question with the aid of a survey specialist and pretested the question prior to submitting it to ICR.

We did our work from November 1998 through July 1999, in accordance with generally accepted government auditing standards. We did not verify consumer complaint data obtained from FTC and Postal Inspection Service nor did we verify data provided by FTC, Postal Inspection Service, and state Attorneys General offices on specific law enforcement actions.

List of Federal, State, and Local Government Agencies and Nongovernmental Organizations Contacted and Their Locations

Name of agency/organization	Location
Federal government agencies:	
Federal Trade Commission (FTC)	Washington, D.C.
U.S. Postal Inspection Service	Washington, D.C.
State government agencies (Offices of Attorneys General):	
Connecticut	Hartford, Connecticut
Florida	Tallahassee, Florida
Local government agencies:	
Citizen Assistance (Consumer Affairs) for City of Alexandria	Alexandria, Virginia
Consumer Affairs Division for Montgomery County	Rockville, Maryland
Nongovernmental organizations:	
American Association of Retired Persons (AARP)	Washington, D.C.
Arizona State University (Gerontology Program)	Tempe, Arizona
Direct Marketing Association (DMA)	Washington, D.C.
National Association of Attorneys General (NAAG)	Washington, D.C.
National Consumers League (NCL)/National Fraud Information Center (NFIC)	Washington, D.C.
U.S. Public Interest Research Group (USPIRG)	Washington, D.C.

Source: GAO.

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