October 10, 2008

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SUBJECT: Audit Report – Shortpaid Postage – Information-Based Indicia Priority Mail
(Report Number MS-AR-09-001)

This report presents the results of our self-initiated review of shortpaid postage on Information-Based Indicia (IBI) Priority Mail® (Project Number 08RG021MS000). The audit covered ▮▮▮▮▮▮▮ IBI postage only.[1] Our objective was to determine whether controls are adequate to detect shortpaid and unpaid postage on IBI Priority Mail.[2] This audit addresses operational risk to the U.S. Postal Service. Click here to go to Appendix A for additional information about this audit.

Conclusion

Overall, controls were not adequate to reasonably ensure the Postal Service detects and collects shortpaid and unpaid postage on IBI Priority Mail. ▮▮▮▮▮▮▮▮▮▮
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Thus, the Postal Service is at risk of revenue loss and fraud. Our audit identified $41.4 million in unrecoverable revenue[3] and $55.2 million in recoverable revenue[4] resulting from shortpaid postage on IBI Priority Mail. We will report this monetary impact in our *Semiannual Report to Congress*.

Controls to Detect Insufficient Postage on IBI Priority Mail Need Strengthening

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▮▮ The Postal

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[1] Postage that is not "hidden." The actual postage amount (in dollars or cents) is visible.
[2] These mailpieces carry the Priority Mail® postage mark or stamp, printed using online postage products. They include a machine-readable two-dimensional barcode, along with human-readable information.
[3] Revenue that should have been recognized for goods delivered or services rendered, but was not recognized due to the passage of time or other circumstances.
[4] Revenue the agency can collect for goods delivered or services rendered.

Service did not detect insufficient IBI Priority Mail® postage because existing guidance (manuals, handbooks, *Postal Bulletins* or standard operating procedures) did not include detailed instructions, identify roles and responsibilities, or establish needed checkpoints for identifying and collecting insufficient postage on ▮▮▮▮▮▮ IBI Priority Mail. Although the Postal Service circulated guidance in the form of service talks on revenue protection and insufficient and omitted postage in May 2008, some employees we interviewed did not acknowledge receiving training on identifying and collecting Shortpaid IBI Priority Mail. Click here to go to Appendix B and see Table 2.

Without specific guidelines and training on identifying and collecting insufficient postage on IBI Priority Mail, the Postal Service risks significant revenue loss and fraud. Based on Origin Destination Information System – Revenue, Pieces, and Weights[5] (ODIS–RPW) data, the Postal Service has incurred $41.4 million in unrecoverable revenue loss from shortpaid and unpaid postage on IBI Priority Mail for fiscal year (FY) 2007 through FY 2008, quarter 2. We also project the Postal Service could prevent revenue losses totaling $55.2 million over a period of 2 years if management implements controls to detect and collect shortpaid and unpaid postage on IBI Priority Mail. Click here to go to Appendix B for our detailed analysis of this topic.

We recommend the Vice Presidents for Expedited Mail, Retail Operations, and Delivery Operations coordinate with the Vice President, Network Operations Management, and the Vice Presidents, Area Operations, to:
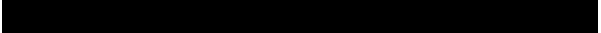
1. Identify mail entry points[6] at which employees should verify Information-Based Indicia (IBI) Priority Mail postage.

2. Update the *Domestic Mail Manual* (DMM) and other applicable manuals and handbooks to establish specific guidelines and assign roles and responsibilities for identifying shortpaid postage on IBI Priority Mail, including a procedure for identifying counterfeit/duplicate IBI Priority Mail labels at mail entry points.

3. Provide formal training to employees who accept and process IBI Priority Mail mailpieces. The training should include specific instructions on identifying and collecting shortpaid IBI postage and verifying the validity of IBI Priority Mail labels and proper procedures for handling counterfeit labels.

4. Raise the level of awareness and importance regarding revenue protection by implementing a national initiative to identify and collect additional postage on shortpaid IBI Priority Mail. Educational and awareness materials could include visual aids, such as posters depicting the various PC Postage IBI labels, which management could hang in post office retail lobbies and back office areas.
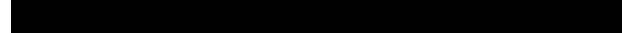
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[5] The primary probability sampling system used to estimate Postal Service revenue, volume, weight, and transit time. Management uses the information collected from this system to develop proposals for new Postal Service rates, assist in budget preparation, conduct management studies, and support management decisions concerning mail flow and service performance in transportation and operations.
[6] A mail entry point is where mail enters the Postal Service. Examples are collection boxes, retail windows, and Carrier Pick-Up.

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Management's Comments

Management agreed with recommendation 2; partially agreed with recommendations 1, 3 and 4; and disagreed with recommendation 5. They also agreed with our monetary impact. To address recommendation 2, management will update the Postal Operations Manual to include shortpaid handling processes, and review the DMM and Handbook M41, *City Delivery Carriers Duties and Responsibilities*, to determine whether revisions are required. Regarding recommendation 1, ████████████████████████████████ ███ ████████████████████████████████. To address recommendations 3 and 4, management will establish a cross-functional team to revise and reissue a letter on shortpaid mail and stale meter dates, and provide ongoing messaging through stand-up talks and the Retail Digest. Additionally, they will update formal training modules throughout the year. Finally, management disagreed with recommendation 5, stating that the ██ ███ ███ █████████████████████████████████. Management's comments, in their entirety, are included in Appendix C.

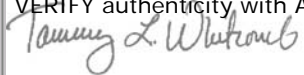## Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to recommendations 1, 2, 3 and 4, and their corrective actions should resolve the issues identified in the report. However, management's comments are only partially responsive to recommendation 5 and will not fully resolve the issues identified in the report. ██ ███ ███ ███ ███ ███ ████████████████████████████

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the

recommendations can be closed. We view the disagreement on recommendation 5 as unresolved and plan to pursue it through the formal audit resolution process.

We will report $96.6 million of monetary impact, including $41.4 million in unrecoverable revenue and $55.2 million in recoverable revenue in our *Semiannual Report to Congress*.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Robert Mitchell, Director, Sales and Service, or me at (703) 248-2100.

E-Signed by Tammy Whitcomb
VERIFY authenticity with ApproveIt
Tammy L. Whitcomb

Tammy L. Whitcomb
Deputy Assistant Inspector General
  for Revenue and Systems

Attachments

cc: Robert Bernstock
      Vice Presidents, Area Operations
      Anthony M. Pajunas
      Daniel J. Lord
      Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service offers several online postage payment options for the convenience of its customers. Customers may choose Click-N-Ship (a Postal Service product) or an authorized online postage provider such as eBay (Pitney Bowes), Endicia.com, Stamps.com, or Pitney Bowes, Inc.[7] This audit addresses the use of authorized providers rather than the Postal Service product.

IBI – A special digital imprint that is valid postage. IBI contains the date, class of mail, postage amount, originating ZIP Code, and a unique device identification number. It also has a unique two-dimensional barcode containing ascending and descending register values, machine-readable mail processing information, and security data for revenue protection. As a security measure, each printed indicia has a unique digital signature to help prevent fraud – no two are alike.[8]

PC Postage – A trademark of the Postal Service for products developed by commercial vendors that allow a user to print postage from a personal computer in the form of an IBI. The Postal Service licenses and authorizes approved vendors as official developers and sellers of the products.

Insufficient Postage – Mail of any class (including mail indicating extra services, except Express Mail, Registered Mail, and nonmachinable First-Class Mail) that is received at either the office of mailing or office of address without enough postage. This mail is marked to show the total (rounded off) deficiency of postage and fees.[9]

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether controls are adequate to detect shortpaid and unpaid postage on IBI Priority Mail®. To accomplish our objective we:

- Reviewed guidance pertaining to shortpaid postage procedures.

- Judgmentally selected and conducted site visits and telephone interviews at 13 sites to review implemented policies and procedures and assess employee knowledge of shortpaid IBI controls.

- Conducted 47 test mailings of IBI Priority Mail from June through August 2008 to determine whether shortpaid or unpaid mailpieces would be delivered undetected.

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[7] *Postal Bulletin*, 22218, page 25, October 25, 2007.
[8] *Postal Bulletin* 22004, page 9, August 12, 1999.
[9] *Domestic Mail Manual*, Chapter 604, Postage Payment Methods, Section 8, Insufficient or Omitted Postage.

- Analyzed ODIS-RPW shortpaid postage data for FYs 2007 and 2008. We relied on data from this system to determine the impact of our findings regarding omitted and insufficient postage for shortpaid IBI Priority Mail®. We did not directly audit the system, but discussed with Postal Service officials the relevance of the data to our audit work.

We conducted this audit from June through October 2008 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on September 5, 2008, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Click-N-Ship Program	MS-AR-08-004	March 31, 2008	$37 million in unrecoverable revenue and $37 million in recoverable revenue	Management should strengthen controls over the program to detect packages mailed with no (or insufficient) postage or with stale dates. The monetary impact resulted from omitted postage on Click-N-Ship packages. Management agreed with the findings and recommendations to strengthen controls over the program.
Balloon Rate and Parcel Surcharges	DR-AR-05-017	September 29, 2005	$24,600 in potential additional revenue	The Philadelphia and Pittsburgh Districts did not properly assess balloon rate, nonmachinable, and oversized surcharges on 234 of 254 packages reviewed. Although management trained retail associates on how to assess surcharges, the training did not include hands-on demonstrations to show retail associates how to properly measure packages. Management stated it planned to develop online training for sales and service associates (SSAs), which would focus entirely on surcharges. Management also stated Point Of Service ONE changes underway would change the way retail associates measure packages.

APPENDIX B: DETAILED ANALYSIS

Controls to Detect Insufficient Postage on IBI Priority Mail Need Strengthening

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Table 1. Shortpaid IBI Priority Test Mailings[10]

Method Used for Mailing	Shortpaid Mailpieces Mailed	Shortpaid Mailpieces Detected	Shortpaid Mailpieces Not Detected
Retail Window	13	5[11]	8
Carrier Pick-Up	6	0	6
Outside Collection Box	11[12]	1[13]	10
Inside Post Office Collection Box	16	1[14]	15
Collector Employee	1	0	1
Totals	**47**	**7**	**40**

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These conditions exist because:

- Existing guidance (manuals, handbooks, *Postal Bulletins* or standard operating procedures) did not define necessary checkpoints or include detailed instructions for identifying and collecting insufficient postage on IBI Priority Mail.

- Employees did not receive sufficient training to identify and collect shortpaid postage on IBI Priority Mail.

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[10] Test mailings included mailings of shortpaid and counterfeit postage.
[11] Four of the five mailpieces were detected by the same SSA and one was detected by another SSA at a different post office.
[12] One mailpiece was mailed in an outside collection box, but was never received and no additional postage was ever requested.
[13] One mailpiece dropped in an outside collection box was returned to sender for postage due.
[14] One mailpiece dropped in an inside collection box was returned to sender for postage due.

- Management did not create and implement policies and procedures to identify and process ██████████████████████ for IBI Priority Mail® at mail entry points.

To assess employee knowledge of identifying and collecting additional postage on shortpaid IBI mail, we conducted site visits and telephone interviews at 13 judgmentally selected sites. At each of the 13 sites, management and personnel were unaware of written policies, standard operating procedures, or other guidance for identifying and collecting shortpaid postage for IBI Priority Mail.

We interviewed 14 SSAs, three letter carriers, six clerks, one mailhandler, 16 managers and supervisors, and one Logistics and Distribution Center (L&DC) specialist (see Table 2).

Table 2. Management/Employee Interview Response Summary

Question	Sales and Service Associates	Letter Carriers	Distribution Clerks and Mailhandlers	Managers/ Supervisors/ L&DC Specialist	Total
Are there written policies and procedures, standard operating procedures (SOPs), and other guidance for identifying and collecting shortpaid IBI Priority Mail postage?	14 No	3 No	7 No	17 No	**41 No**
Are random samples conducted to identify and collect shortpaid IBI postage? (managers & supervisors only)	Did Not Ask[15]	Did Not Ask	Did Not Ask	3 Yes 14 No	**3 Yes 14 No 24 Did Not Ask**

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[15] The question was not applicable to the craft employees.

Question	Sales and Service Associates	Letter Carriers	Distribution Clerks and Mailhandlers	Managers/ Supervisors/ L&DC Specialists	Total
Are employees assigned to isolate and handle shortpaid Priority Mail® mailpieces?	Did Not Ask[16]	3 No	7 No	17 No	**27 No 14 Did Not Ask**
Is training or are stand-up talks provided to inform employees on how to identify and collect shortpaid IBI Priority Mail?	6 Yes[17] 8 No	Did Not Ask[18]	Did Not Ask	3 Yes 14 No	**9 Yes 22 No 10 Did Not Ask**
Have they received any training on revenue protection?	2 Yes 12 No	3 No	2 Yes 5 No	Did Not Ask	**4 Yes 20 No 17 Did Not Ask**
Are there procedures in place to identify ▮▮▮▮▮▮▮ mailpieces?	14 No	Did Not Ask	Did Not Ask	Did Not Ask	**14 No 27 Did Not Ask**
Do they follow the Retail Acceptance SOPs for Electronic Rate Confirmation Services Online Labels with or without postage affixed?	6 Yes 8 No	Did Not Ask[19]	Did Not Ask	Did Not Ask	**6 Yes 8 No 27 Did Not Ask**

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[16] This question was not asked of SSAs and letter carriers because the intent was to determine whether someone verifies postage after the SSAs accept the package at the retail window.
[17] Six SSAs we interviewed were given a stand-up talk on stealth postage.
[18] This question was not asked of any interviewees who responded "No" to the question "Are employees assigned to isolate and handle shortpaid Priority Mail mailpieces?"
[19] The question was directed only to the SSAs. Electronic Rate Confirmation Services is part of the retail acceptance function.

Question	Sales and Service Associates	Letter Carriers	Distribution Clerks and Mailhandlers	Managers/ Supervisors/ L&DC Specialists	Total
Have they received stand-up talks on stealth postage?	6 Yes 8 No	Did Not Ask[20]	Did Not Ask	Did Not Ask	**6 Yes 8 No 27 Did Not Ask**

Source: OIG Interview Results

Without established procedures, specific guidelines, and training on identifying and collecting insufficient postage on IBI Priority Mail®, shortpaid postage can go undetected and uncollected and the Postal Service is at added risk of significant revenue loss and fraud. Based on ODIS–RPW data, the Postal Service incurred $41.4 million in unrecoverable revenue loss from shortpaid and unpaid postage on IBI Priority Mail for FY 2007 through FY 2008, quarter 2 (see Table 3).

Table 3. Shortpaid Revenue – IBI Priority Mail (▬▬▬▬▬) [21]

Period	Shortpaid Revenue
FY 2007	
Q1	$4,988,232
Q2	4,701,727
Q3	7,035,512
Q4	7,694,212
Total FY 2007	**$24,419,683**
FY 2008	
Q1	$8,744,047
Q2	8,248,971
Total FY 2008, Q1 – Q2	**$16,993,018**
Total FY 2007 through FY 2008, Q2	**$41,412,701[22]**

Source: ODIS-RPW

We also project the Postal Service could prevent revenue losses totaling $55.2 million over a period of 2 years if management implements controls to detect and collect shortpaid and unpaid postage on IBI Priority Mail.

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[20] This question was not asked of any interviewees who responded "No" to the question "Are employees assigned to isolate and handle shortpaid Priority Mail mailpieces?"
[21] Excludes Click-N-Ship® mail.
[22] Overpaid revenue for IBI Priority Mail (▬▬▬▬) was $29,827,970 for the same period.

APPENDIX C: MANAGEMENT'S COMMENTS[23]

**UNITED STATES
POSTAL SERVICE**

October 1, 2008

Lucine M. Willis
Director, Audit Operations
1735 North Lynn Street
Arlington, VA 22209-20202

SUBJECT: Draft Audit Report – Shortpaid Postage – Information-Based Indicia Priority Mail and
Parcel Post Mail (Report Number MS-AR-08-DRAFT)

We have read the Draft Audit Report – Shortpaid Postage – Information-Based Indicia
Priority Mail and Parcel Post Mail (MS-AR-08-DRAFT). Management agrees with some of the
recommendations. Management's responses to each recommendation are included below.

Recommendation 1:
Identify mail entry points at which employees should verify Information-Based Indicia (IBI) Priority
Mail postage and Parcel Post Mail.

Response:
We partially agree. There are three entry points at post offices for IBI Priority Mail where postage
items are deposited; retail window, back dock and packages brought back by carriers. We can
verify IBI postage at the retail windows. ███████

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Recommendation 2:
Update the DMM and other applicable manuals and handbooks to establish specific guidelines and
assign roles and responsibilities for identifying shortpaid postage on IBI Priority Mail and Parcel
Post Mail, including a procedure for identifying counterfeit/duplicate IBI Priority Mail and Parcel Post
Mail labels at mail entry points.

Response:
Management agrees with the recommendation and will update the Postal Operations Manual
(POM) to include shortpaid handling processes. Additionally, we will review the DMM and M41 to
determine if revisions are required.

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[23] We issued a separate draft report on shortpaid Parcel Post mail to the Vice President, Ground Shipping, containing essentially the same findings and recommendations. Management combined its responses to both reports. Therefore, management's response mentions both Priority mail and Parcel Post mail.

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Recommendation 3 + 4:
Provide formal training to employees who accept and process IBI Priority Mail and Parcel Post mail pieces. The training should include specific instructions on identifying and collecting shortpaid IBI postage and verifying the validity of IBI Priority Mail and Parcel Post Mail labels and proper procedure for handling counterfeit labels.

Raise the level of awareness and importance regarding revenue protection by implementing a national initiative to identify and collect additional postage on shortpaid IBI Priority Mail and Parcel Post Mail. Education and awareness materials could include visual aids, such as posters depicting the various PC Postage IBI labels, which management could hang in post office retail lobbies and back office areas.

Response:
Management agrees in part with this recommendation. A collaborative effort with a cross functional team will revise and reissue the letter concerning shortpaid mail and stale meter dates. Ongoing messaging will be sent through our regular channels such as stand-up talks and Retail Digest.

Target Completion Date: Quarterly

Formal training will be updated when we update specific training modules throughout the year. For example, SSA training is in the process of being updated; a module on IBI shortpaid and fraudulent items will be included.

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Recommendation 5:
Require supervisors to conduct random verifications of postage paid on IBI Priority Mail and Parcel Post Mail, ensure employees follow appropriate procedures to collect additional postage, and maintain a daily log for the random verifications results. Results should be consolidated at the district level to identify potential sources of abuse.

Response:
Management disagrees with the recommendation. Currently there are technologies and processes in place ████████████████████████

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James Cochrane
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cc: Manager, Corporate Response Audit
    Vice President, Network Operations