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GARY C. REBLIN
VICE PRESIDENT, SHIPPING SERVICES

JAMES P. COCHRANE
VICE PRESIDENT, PRODUCT VISIBILITY AND OPERATIONS PERFORMANCE

PRANAB M. SHAH
VICE PRESIDENT AND MANAGING DIRECTOR, GLOBAL BUSINESS

SUBJECT: Audit Report – Express Mail Guarantees
(Report Number FF-AR-11-004)

This report presents the results of our audit of Express Mail® guarantees (Project Number 10BG004FF000). The objective of our audit was to determine if it is prudent business practice for the U.S. Postal Service to guarantee Express Mail Service to all Zone Improvement Plan (ZIP) Codes and American territories. In addition, we determined whether or not the Postal Service is monitoring Express Mail Corporate Account (EMCA) negative balances and closing inactive accounts effectively. This self-initiated audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

Express Mail is an expedited mail delivery service of the Postal Service that guarantees mail delivery time. The Postal Accountability and Enhancement Act of 2006 (Postal Act of 2006) classifies Express Mail as a competitive product and requires the Postal Service to ensure that each competitive product covers its attributable costs.¹ The Postal Service charges Express Mail postage for each addressed mailpiece according to its weight and zone, with on-time delivery guaranteed or the customer gets their money back. During fiscal year (FY) 2009, the Postal Service delivered approximately [REDACTED] million pieces of Express Mail, generating approximately [REDACTED] million in revenue, and refunded [REDACTED] million for late deliveries.² The Postal Service measures Express Mail service performance by establishing a targeted percentage for on-time delivery. The target for on-time Express Mail delivery was [REDACTED] percent for FY 2009 and [REDACTED] percent for FY 2010. The Postal Service allows mailers to establish and pay their Express Mail postage through EMCAs.

¹ The direct and indirect costs attributable to products through reliably identified causal relationships.

² Through Q2, FY 2010 Express Mail revenue was approximately [REDACTED] million from approximately [REDACTED] million pieces, and refunds totaled [REDACTED] million for late deliveries.

Conclusion

Although the Postal Service came very close to meeting its overall goal of [REDACTED] percent on-time Express Mail delivery in FY 2009,³ it did not meet the on-time delivery target for [REDACTED] of over 40,000 ZIP Codes, including military installations and American territories. Of the [REDACTED] million pieces of Express Mail sent from October 1, 2007 through March 31, 2010, the Postal Service did not meet the guaranteed delivery times for approximately [REDACTED] million pieces, resulting in potential monetary exposure of \$80.6 million.⁴ The actual amount refunded for this period was [REDACTED] million.

Postal Service personnel did not examine the reasons for the late deliveries or make adjustments to the network to achieve timely delivery or adjust the Express Mail guarantees to what it can realistically achieve. Further, the Postal Service does not have a system in place to track Express Mail refunds by originating or destination ZIP Codes. Therefore, the Postal Service has been unable to determine whether they are covering all their costs, including attributable costs, for a specific destination ZIP Code.

[REDACTED]

In addition, some districts were not monitoring and timely closing EMCA inactive accounts. As of July 31, 2010, there were [REDACTED] EMCA accounts with balances totaling [REDACTED] million. Of these accounts, [REDACTED] percent) were inactive with balances totaling [REDACTED] million. Furthermore, [REDACTED] of these inactive accounts, with balances totaling [REDACTED] million, were inactive for over 2 years.

Late Express Mail Deliveries Not Determined or Addressed

In FY 2009, the Postal Service delivered approximately [REDACTED] million pieces of Express Mail late and did not meet its targeted [REDACTED] percent on-time delivery for [REDACTED] of 40,404 delivery ZIP Codes.

- Express Mail destined to American territories and military ZIP Codes accounted for only about [REDACTED] late pieces; however, they had some of the highest rates of late deliveries.
- Express Mail deliveries to the 50 states accounted for over [REDACTED] million late pieces.

Express Mail destined to American territories had some of the highest late delivery rates. [REDACTED]

³ The Postal Service delivered over [REDACTED] million of [REDACTED] million pieces of Express Mail packages late in FY 2009 ([REDACTED] percent).

⁴ The \$80.6 million represents the total potential monetary exposure of [REDACTED] million minus the actual refunded amount of [REDACTED] million. See [Appendix C](#) for details of the calculation.

[REDACTED]

Of the approximately [REDACTED]⁵ Express Mail pieces destined to 214 military ZIP Codes, [REDACTED] (or 72 percent) were late. Almost 75 percent of the late mail took at least 6 days to be delivered to a military post office, even though the Postal Service has 3-day guaranteed delivery for military Express Mail. Management believes the main causes for the late delivery were transportation and scanning issues.⁶ The Postal Service has recently formed a working group with the Military Postal Service Agency (MPSA) to review the overall logistics of the military Express Mail network. They believe significant improvements will be made over time; however, no deadline has been established. In addition, the retail units are manually determining the 3-day guaranteed delivery date because military service delivery commitments are not currently included in the automated Service Delivery Calculator (SDC).⁷ Not having the automated SDC could cause inaccuracies in the calculations of the guaranteed delivery times, putting revenue at risk when this mail is not delivered on time. In addition, although we did not analyze the timeliness of Express Mail delivery from military ZIP Codes to U.S. destinations, it is especially important for Express Mail delivery between the 50 states and military ZIP Codes be timely in order to ensure that military personnel absentee ballots arrive in time to be counted.⁸

Express Mail destined to certain ZIP Codes in the 50 states accounted for most of the potential monetary exposure identified. In FY 2009, the Postal Service late delivered [REDACTED] million Express Mail pieces to the 50 states. Management recognizes there are operational and logistical issues with late delivery to certain ZIP Codes in the 50 states as well as in the American territories and military posts, but they have not established a process to determine the reasons behind and solutions to late delivery because (1) the total refunds claimed for late deliveries have been low compared to the total revenue and (2) their priority was to implement the SDC to more accurately calculate the delivery time.⁹

⁵ In FY 2009, almost 58 percent of the mailpieces destined to military ZIP Codes were not scanned and have no record of delivery. The [REDACTED] mailpieces were scanned into the system.

⁶ The Postal Service scans the mailpiece into the system to track the acceptance and delivery time.

⁷ In March 2010, the Postal Service implemented the SDC, which automatically calculates the guaranteed delivery date and time for Express Mail articles and the expected delivery date for all other domestic mail classes (excluding Army/Air Force Post Offices (APO)/Fleet Post Officers (FPO). Retail outlets that use Point-of-Service (POS) are just one of the many outlets that use the SDC to determine guaranteed or expected delivery date commitments. The SDC is also used by the Automated Postal Center, Click-N-Ship® and Product Tracking System.

⁸ The Postal Service and the MPSA regularly join forces to expedite delivery of absentee ballots to overseas military personnel. For example, military personnel in APO/FPO locations are able to return absentee ballots via Express Mail using a special label with the postage being paid by the MPSA.

⁹ We did not evaluate whether implementation of the SDC allows the Postal Service to more accurately calculate delivery time but believe consolidation into one source should help in improving delivery time. In the past, different systems had different logics to calculate the delivery time.

For FY 2009, the Postal Service had potential monetary exposure of [REDACTED] million for approximately [REDACTED] million pieces of late delivered Express Mail packages.¹⁰ Overall, the Postal Service did not meet the guaranteed delivery times for approximately [REDACTED] million of [REDACTED] million Express Mail pieces for the period October 1, 2007, through March 31, 2010, resulting in potential monetary exposure of \$80.6 million. See [Appendix B](#) for our detailed analysis of this topic and [Appendix C](#) for details of the other impact.

We recommend the vice president, Shipping Services, in coordination with the vice president, Product Visibility and Operations Performance; and vice president and managing director, Global Business:

1. Evaluate the reasons for late deliveries for American territories and, if it is not possible to significantly improve on-time delivery, determine if they should adjust or eliminate guarantees.
2. Review military Express Mail and logistics to evaluate reasons for the delays in delivering mail to military personnel and make necessary changes to improve service performance.
3. Implement actions to include military ZIP Codes in the Service Delivery Calculator.
4. Identify reasons for late Express Mail deliveries to ZIP Codes in the 50 states with the highest volumes of late deliveries and either implement actions to reduce late delivery or determine if they should adjust or eliminate delivery guarantee time.

Express Mail Refunds Not Tracked

While the refunds as a percentage of total revenue have been low,¹¹ the Postal Service currently has no system in place to track Express Mail refunds by originating or destination ZIP Codes. Management recognizes it is important to track refunds by origin and destination to accurately assess risk and to identify necessary changes in service. In September 2009, the Postal Service started a project and began capturing the refund information in some offices.¹² However, management has delayed completion of the project until FY 2011 due to other priorities and could not provide an exact timeframe for restarting this project. Management still needs to capture this information for the remaining offices and to build the reporting capability into the Enterprise Data Warehouse (EDW). Until this information is captured and the reporting capability is built, the Postal Service is unable to determine what origin or destination sites are contributing to the refunds.

¹⁰ The [REDACTED] million represents the FY 2009 total potential monetary exposure of [REDACTED] million minus the actual refunded amount of [REDACTED] million.

¹¹ In FY 2009, the Postal Service refunded approximately [REDACTED] million for late deliveries out of [REDACTED] million in revenue received (or [REDACTED] percent).

¹² Integrated Retail Terminal and POS offices began capturing refund information in September 2009 and November 2009, respectively.

We recommend the vice president, Shipping Services:

5. Establish a timeframe for and develop a process to analyze Express Mail refunds by origin and destination to evaluate risk and identify necessary changes in service in order to make better business decisions for guarantees.

Inactive EMCAs Not Monitored

Postal Service districts are not always monitoring and closing inactive EMCA accounts. As of July 31, 2010, there were [REDACTED] inactive accounts totaling approximately \$1.9 million. Furthermore, [REDACTED] of these accounts, with balances totaling [REDACTED] million, have been inactive for over 2 years. While there were inactive accounts in all eight Postal Service areas and in 73 of 74 districts, 44 percent of the inactive account balances are in the [REDACTED] Areas.

The Postal Service requires districts to close an account that has been inactive for 1 year.¹³ Four districts we contacted did not have a process in place to monitor inactive accounts. Management in one district stated they did not monitor inactive accounts because other duties took priority. Management in the remaining three districts stated they were unaware of the procedures because they transferred the responsibility to monitor EMCA accounts from the district's Expedited Service Offices to the district's Mailing Requirements group in 2008. When the Postal Service does not comply with financial reporting controls, they are at an increased risk of fraud and lost revenue.

See [Appendix B](#) for our detailed analysis of this topic and [Appendix C](#) for details of the \$1.9 million monetary impact.

We recommend the vice president, Shipping Services:

6. Reiterate to area vice presidents and appropriate district personnel their responsibility to monitor and close inactive Express Mail Corporate Accounts when appropriate.
7. Communicate current Express Mail Corporate Account inactive account information to area vice presidents for action to be taken by appropriate district personnel.

Management's Comments

Management generally agreed with all findings and recommendations. For recommendations 1 and 4, management agreed that by March 31, 2011, the Operations Performance group will perform analysis to identify the reasons for late deliveries of Express Mail to the American Territories and the 50 states with the highest volumes of

¹³ *Domestic Mail Manual* (DMM), Section 414.2.6.b, page 534.

late deliveries. Based on that analysis, by April 30, 2011, the Express Mail Program Office will determine whether to adjust or eliminate guarantees.

For recommendation 2, management agreed to review all aspects of the Express Mail Military Service (EMMS) product and the logistics supporting this product. They noted that they have already formed a working group made up of Postal Service Headquarters officials and the Military Postal Service Agency to evaluate and address the reasons for the delays and they intend to take the necessary actions to improve overall service performance by June 30, 2011.

For recommendation 3, management agreed to explore actions to include military ZIP codes in the Service Delivery Calculator and will evaluate the financial resources needed to determine the feasibility of this recommendation. By March 30, 2011, based on resources and funding needed, management will determine the best way to proceed.

For recommendation 5, management stated they started an Express Mail Refunds Visibility Project last year to capture the Express Mail refunds at retail sites. This data capture from non-Point-of-Service sites and the reporting capability should be ready by June 30, 2011.

For recommendations 6 and 7, management generally agreed to have area and district personnel monitor and close inactive accounts when appropriate. While management agreed with the inactive account balance of \$1.9 million, they did not agree that it is “recoverable revenue” as they are trust accounts. They believe that instead of closing the accounts and refunding customers or transferring the balance to miscellaneous revenue, it is more important to have a plan in place to re-activate inactive account holders. Management agreed to develop a plan by March 30, 2011 to reintroduce the benefits of the Express Mail Accounts to encourage customers to ship with the Postal Service. See [Appendix E](#) for management’s comments, in their entirety.

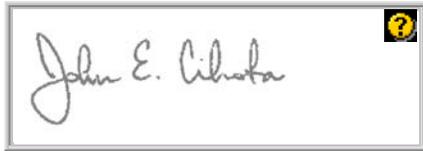
Evaluation of Management’s Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management’s comments responsive to the recommendations in the report. For recommendation 6 and 7, we agree that having a plan in place to reactivate inactive account holders versus just closing the inactive accounts would be beneficial. However, if inactive account holders do not plan to mail with the Postal Service, the accounting policy is to close them after 1 year of inactivity. Regarding the categorization of the monetary impact, OIG policy is to consider the balances in inactive trust accounts as recoverable revenue. After the Postal Service notifies the inactive account holders that the accounts will be closed and a customer has not requested a refund within 10 days, the balances are transferred to miscellaneous revenue.

The OIG considers all 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 Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Linda J. Libician-Welch, director, Field Financial-West, or me at 703-248-2100.

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". In the top right corner of the box, there is a small yellow square icon with a black question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

cc: Vincent H. DeVito, Jr
Dean J. Granholm
Jordan M. Small
Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Express Mail is an expedited mail delivery service of the Postal Service that guarantees mail delivery time. Express Mail service guarantees delivery or the Postal Service will refund customers their money. Postage is charged for each addressed piece according to its weight and zone. The basic types of Express Mail service are next-day service, second-day service, military service, custom designed, and open and distribute. Express Mail service is also available to most American territories.

Express Mail Military Service (EMMS) is available between the U.S. and designated Army/Air Force Post Offices (APO) and Fleet Post Offices (FPO). This service provides Department of Defense personnel stationed overseas and others entitled to APO and FPO mailing privileges with an expedited delivery service to or from the U.S. The Postal Act of 2006 classifies Express Mail as a competitive product and requires the Postal Service to ensure that each competitive product covers its attributable costs.

The Postal Service allows customers to pay Express Mail postage through EMCA. EMCA account holders establish and maintain their accounts by:

- Using a personal or business credit card.
- Authorizing the Postal Service to originate an Automated Clearing House (ACH) debit from a specified bank account.
- Participating in the Centralized Account Processing System (CAPS) debit only if combined with other PostalOne! accounts such as permit imprint, Periodicals, and Business Reply Mail.
- Depositing cash and checks in local trust accounts (for existing trust account holders only) and maintaining a minimum balance in the account equal to an average week's postage and fees, or \$100, whichever is higher.

Mailers can charge Express Mail shipments to one account and deposit shipments paid through an EMCA at any Express Mail collection box or at any post office, or with a Postal Service letter carrier. As of July 31, 2010, there were ██████ EMCAs with a total balance of approximately ██████ million.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our self-initiated audit was to determine if it is prudent business practice for the Postal Service to guarantee Express Mail service to all ZIP Codes and American territories. This project focused on Express Mail on-time delivery performance and the monetary exposure created when the Postal Service did not deliver Express Mail on

time. In addition, during our audit an issue surfaced with EMCA inactive and negative accounts. We evaluated and analyzed EMCA accounts nationwide to determine if the Postal Service is monitoring EMCA negative balances and closing inactive accounts effectively.

To accomplish our objective, we determined whether the Postal Service had a process in place to ensure Express Mail guarantees are reasonable for all ZIP Codes. We evaluated the Express Mail on-time performance data from the Product Performance Reporting in the EDW for FY 2008 through Q2, FY 2010 by destination ZIP Codes.

We conducted interviews with Postal Service Headquarters and district personnel regarding Express Mail guarantees and the EMCA monitoring process. In addition, we reviewed Express Mail policies and procedures and other documents, including the Postal Act of 2006.

We conducted this performance audit from April through December 2010 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management officials on November 4, 2010, and included their comments where appropriate.

We verified the accuracy of the data by confirming our analysis and results with management and other data sources. In addition, the OIG tests the financial information in EDW and Revenue Pieces, and Weight as part of its annual financial statement audits. We determined the information to be sufficiently reliable for our audit.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Express Mail Operations</i>	NO-AR-04-008	5/5/2004	\$0	The Postal Service did not meet established service standards for over 99 percent of Express Mail packages destined to Guam and 87 percent destined to American Samoa. Management generally agreed with the recommendations but believed providing dedicated air service for Express Mail packages to American Samoa would be cost-prohibitive and, therefore, not feasible.
<i>Overdrawn Express Mail Corporate Accounts</i>	DR-AR-06-007	8/9/2006	\$319,014	The Postal Service did not collect revenue from 179 EMCA's with overdrawn balances and did not close accounts with negative balances. Management agreed with the recommendations and stated they would take corrective action to convert the EMCA's to ACH or credit card accounts. However, management did not convert EMCA trust accounts to ACH or credit card accounts because they stated it is not mandatory and customers were not responsive to the idea.
<i>Review of the Postal Service's Express Mail Corporate Account System</i>	1743339-MF	July 2009	\$0	The U.S. Postal Inspection Service identified over 50 percent of EMCA accounts as inactive and recommended eliminating EMCA trust accounts as a payment option and requiring EMCA customers to pay via ACH, CAPS, and credit card accounts. Management was not required and chose not to respond to the report.

APPENDIX B: DETAILED ANALYSIS

Late Express Mail Deliveries Not Determined or Addressed

In FY 2009, the Postal Service delivered approximately [redacted] million pieces of Express Mail late. The percentage of late deliveries for Express Mail destined to military ZIP Codes, American territories, and the 50 states varied significantly as shown in Table 1.

Table 1: FY 2009 Express Mail Late Deliveries by Destination

Destination	FY 2009 Express Mail Pieces			
	Total	Percentage of Total	Number Delivered Late	Percentage Delivered Late
Military	[redacted]	[redacted]	[redacted]	[redacted]
American Territories	[redacted]	[redacted]	[redacted]	[redacted]
50 States	[redacted]	[redacted]	[redacted]	[redacted]
Total	[redacted]	100.0%	[redacted]	[redacted]

Source: Product Performance Reporting in EDW

In addition, the Postal Service did not meet its target of [redacted] percent on-time delivery for [redacted] of 40,404 delivery ZIP Codes as shown in Table 2.

Table 2: FY 2009 Delivery ZIP Codes

FY 2009 Number of Delivery ZIP Codes		
Percentage Delivered On-Time	Number of ZIP Codes	Percentage of ZIP Codes
[redacted]	[redacted]	[redacted]
Total All ZIP Codes	40,404	100.0%
Total ZIP Codes not meeting [redacted] target	[redacted]	[redacted]

Source: Product Performance Reporting in EDW

Express Mail Destined to American Territories

As shown in Table 1, Express Mail destined to American territories was late twice as often as Express Mail destined to the 50 states. Furthermore, late deliveries to American territories varied significantly by destination, as shown in Table 3.

Table 3: FY 2009 Express Mail Late Deliveries to American Territories

Destination	FY 2009 Express Mail Pieces		
	Total	Number Delivered Late	Percentage Delivered Late
American Samoa	[REDACTED]	[REDACTED]	[REDACTED]
Palau	[REDACTED]	[REDACTED]	[REDACTED]
Mariana Islands	[REDACTED]	[REDACTED]	[REDACTED]
Guam	[REDACTED]	[REDACTED]	[REDACTED]
Puerto Rico	[REDACTED]	[REDACTED]	[REDACTED]
Virgin Islands	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]

Source: Product Performance Reporting in EDW

Express Mail destined to American Samoa was late [REDACTED] percent of the time. We identified this same issue in a 2004 report¹⁴ for late Express Mail deliveries to American Samoa and Guam; however, management concluded that having dedicated flights was cost prohibitive, and the OIG concurred with management.

While the Postal Service offers guaranteed 2-day delivery to the American territories, [REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

Management has not determined the causes but believes one of the reasons they are not meeting guarantees for Pacific American Territories is the limited number of commercial flights. There are only three flights a week to most of the American territories in the Pacific.

¹⁴ *Express Mail Operations* (Report Number NO-AR-04-008, dated May 5, 2004).

¹⁵ DMM Section 113.4.3.1, page 46.

[Express Mail Destined to Military ZIP Codes](#)

As described in Table 1, 72 percent of the Express Mail pieces destined to 214 military ZIP Codes were late.¹⁶ Twenty ZIP Codes accounted for 57 percent of the total late Express Mail pieces destined to military ZIP Codes. See Table 4.

Table 4: Top 20 ZIP Codes with Highest Number of Pieces of Late Express Mail to Military ZIP Codes

Destination	ZIP Codes	FY 2009 Express Mail Pieces to Military		
		Total	Number Delivered Late	Percentage Delivered Late
[REDACTED] ¹⁷	[REDACTED]	[REDACTED]	[REDACTED]	98.4%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	91.7%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	89.3%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	89.2%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	86.5%
[REDACTED] ¹⁸	[REDACTED]	[REDACTED]	[REDACTED]	86.5%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	85.8%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	83.1%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	82.7%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	82.4%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	80.4%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	79.5%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	78.1%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	77.2%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	73.2%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	70.4%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	68.3%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	66.0%
[REDACTED] ¹⁹	[REDACTED]	[REDACTED]	[REDACTED]	49.0%
Total Top 20		[REDACTED]	[REDACTED]	72.4%
Total All Military ZIP Codes		[REDACTED]	[REDACTED]	71.7%
Percentage of Top 20			57.3%	

Source: Product Performance Reporting in EDW

¹⁶ In FY 2009, almost 58 percent of mailpieces destined to military ZIP Codes were not scanned and have no records of delivery.

¹⁷ [REDACTED]
¹⁸ [REDACTED]
¹⁹ [REDACTED]

While the Postal Service guarantees 3-day delivery for military Express Mail,²⁰ 75 percent of the late mail took at least 6 days to be delivered to a military post office.

Management believes the main causes for the late delivery were transportation and scanning issues. They stated that military mail must be delivered in 1 day to certain stops along the way to reach the military destination on time. In addition, the military has to improve coordinating flight schedules to pick up the mail when it arrives. Sometimes military personnel leave before the flight arrives, resulting in late delivery times. Furthermore, management stated military personnel are not timely scanning the Express Mail piece when it is delivered to the military post office. The Postal Service has recently formed a working group with the MPSA to review the overall logistics of the military Express Mail network. Management believes significant improvements will be made over time; however, they have not established a deadline for completion of the working group or milestones for improvements.

Another reason management believes deliveries to military destinations are late is because the retail units have to use a manual EMMS Directory Guide to determine the 3-day guaranteed delivery date. Military service delivery commitments are not currently included in the SDC. Using a manual process could cause errors when calculating the guaranteed delivery times. For example, the 3-day guarantee should add weekends and holidays. A retail clerk might mark "3-day guaranteed delivery" on the Express Mail label and forget to add the 2 additional days for the weekend and possibly the holiday. The SDC automatically calculates the guaranteed time for all other Express Mail, including weekend and holiday when warranted.

In addition, although we did not analyze the timeliness of Express Mail delivery from military ZIP Codes to U.S. destinations, it is especially important for Express Mail delivery between the 50 states and military ZIP Codes be timely in order to ensure that military personnel absentee ballots arrive in time to be counted.

[Express Mail Destined to ZIP Codes in the 50 States](#)

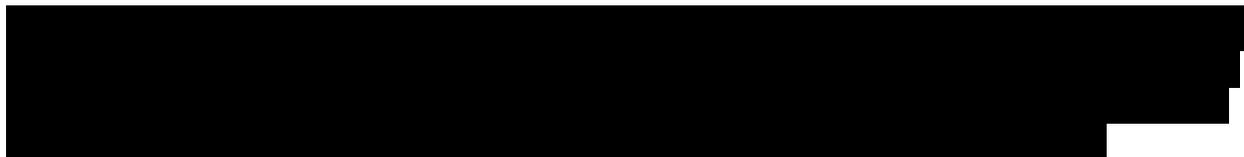
While, overall, Express Mail destined to the 50 states was late just █ percent of the time, it accounted for 97 percent of the █ million late deliveries and most of the potential monetary exposure. Fifty percent of the █ million Express Mail pieces delivered late were destined to █ of the 39,980 ZIP Codes in the 50 states. Table 5 shows the top 20 ZIP Codes with the highest number of late delivered Express Mail pieces.

²⁰ *Express Mail Military Service (EMMS) Directory*, dated July 7, 2010; and DMM Section 703.2.6.3, page 1192.

Table 5: Top 20 ZIP Codes with Highest Number of Pieces of Late Express Mail to the 50 States

Destination	ZIP Code	FY 2009 Express Mail Pieces		
		Total	Number Delivered Late	Percentage Delivered Late
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
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[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: Product Performance Reporting in EDW



Management recognizes there are operational and logistical issues with late delivery to certain ZIP Codes in the 50 states, as well as in the American territories, but they have not set up a process to determine and resolve the reasons for late delivery because the total refunds claimed have been low in comparison to the total revenue. In addition, they stated their priority was to implement an automated tool to more accurately calculate the

²¹ Express Mail to ZIP Code [REDACTED] represents 1 percent of the late delivered pieces to the 50 states.



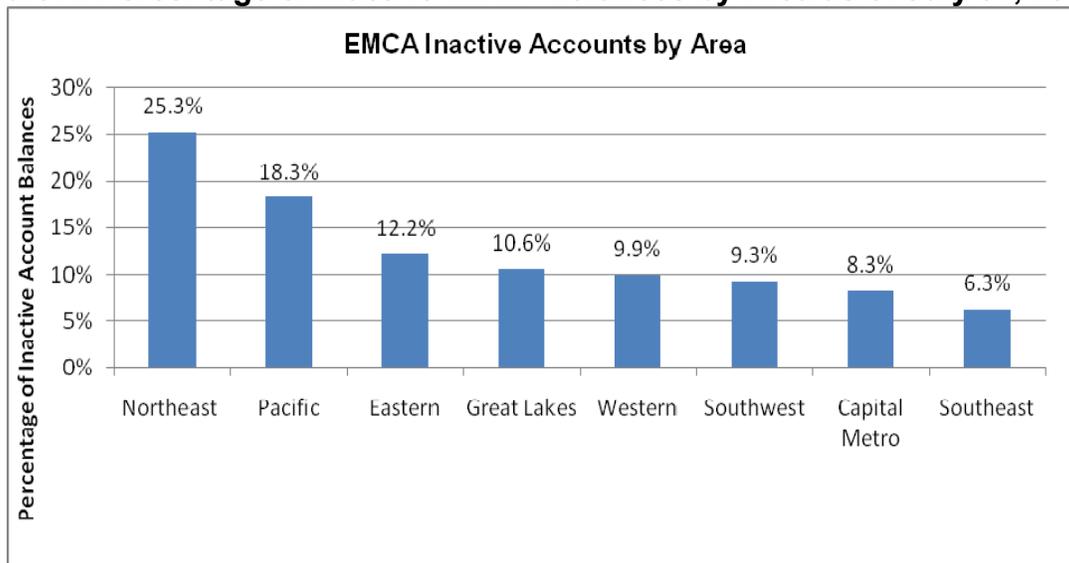
delivery time. This automated tool, the SDC, was implemented in March 2010. The tool calculates the guaranteed delivery date and time for Express Mail articles and the expected delivery date for all other domestic mail classes except APO/FPO. Retail outlets that use POS are just one of the many outlets that use the SDC to determine guaranteed or expected delivery date commitments.

For FY 2009, the Postal Service had potential monetary exposure of [redacted] million for approximately [redacted] million pieces of late delivered Express Mail packages.²² For the period October 1, 2007 through March 31, 2010, potential monetary exposure was \$80.6 million for [redacted] million late delivered pieces out of a total of [redacted] million Express Mail delivered pieces. See [Appendix C](#) for details of the other impact.

Inactive EMCAs Not Monitored

Postal Service districts are not always monitoring and closing inactive accounts.²³ As of July 31, 2010, there were [redacted] EMCA accounts with balances. Of those, [redacted] accounts (or [redacted] percent), totaling \$1.9 million, were inactive. While there were inactive accounts in all eight Postal Service areas and in 73 of 74 districts, two areas have significantly more inactive accounts than others. The Northeast and Pacific Areas are responsible for 44 percent of the inactive account balances as shown in Chart A.

Chart A: Percentage of Inactive EMCA Balances by Area as of July 31, 2010²⁴



Source: Electronic Marketing and Reporting System (EMRS)

²² The [redacted] million represents the FY 2009 total potential monetary exposure of [redacted] million minus the actual refunded amount of [redacted] million.

²³ We did not discuss EMCA negative accounts because the Postal Service has made significant progress in reducing these.

²⁴ These accounts were inactive for 1 year or more.

Table 6 shows the top 10 districts with the highest EMCA inactive accounts as of July 31, 2010. See [Appendix D](#) for all districts.

Table 6: Top 10 Districts with Highest EMCA Inactive Accounts as of July 31, 2010

Area	District	Total Accounts	Number of Inactive Accounts	Percentage of Inactive Accounts	Total Balance	Inactive Account Balance	Percentage of Balance
				38.4%			34.8%
				29.7%			15.8%
				43.9%			31.3%
				49.4%			44.7%
				42.2%			21.9%
				46.8%			27.5%
				41.5%			27.4%
				43.0%			43.6%
				22.6%			16.5%
				43.5%			37.4%

Source: EMRS

For example, the [REDACTED] had the highest balance (\$108,648 with 734 inactive accounts) and the [REDACTED] ranked second (totaling \$89,094 with 444 inactive accounts).

In addition, almost 67 percent of inactive accounts have been inactive for over 2 years as shown in Table 7.

Table 7: Aging of EMCA Inactive Accounts by Number of Years Inactive

Number of Years Inactive	Number of Inactive Accounts	Percentage of Accounts	Balance	Percentage of Balances
1	3,169			
2	1,821			
3	1,234			
4	900			
5	622			
6	434			
7	344			
8	252			
9	213			
10	160			
11	119			
12	101			
13	57			
14	42			
15	26			
16	18			
17	11			
18	12			
19	1			
20	1			
Total		100.0%	\$1,898,136.71	100.0%
Inactive over 2 Years		66.8%	\$1,195,162.56	63.0%

Source: EMRS

APPENDIX C: MONETARY AND OTHER IMPACTS**Monetary Impact**

Finding	Impact Category	Amount
EMCA Inactive Accounts	Recoverable Revenue Loss ²⁵ \$1,898,137	26

Other Impact

Finding	Impact Category	Amount
Late Express Mail Deliveries	Revenue at Risk ²⁷ \$80,589,258	

Calculation of Other Impact

	A	B	C	D	E
	Express Mail Packages Not Delivered on Time	Average Postage per Mailpiece	Refund Liability (column A multiplied by column B)	Actual Amount Refunded	Potential Monetary Exposure (column C minus column D)
FY2010 (Q1-Q2)	██████	██████	██████	██████	██████
FY 2009	██████	██████	██████	██████	██████
FY 2008	██████	██████	██████	██████	██████
Total	██████	██████	██████	██████	\$80,589,258

²⁵ Revenue that can be collected for goods delivered or services rendered.

²⁶ We recognize that the amount cannot be transferred to the revenue account until the customers reply or 10 days notice has expired.

²⁷ Revenue the Postal Service is at risk of losing (for example, when a mailer seeks alternative solutions for services currently provided by the Postal Service).

APPENDIX D: EMCA INACTIVE ACCOUNTS BY DISTRICT

EMCA Inactive Accounts by District Ranked by Highest Inactive Account Balance as of July 31, 2010

Area	District	Total Accounts	Number of Inactive Accounts	Percentage of Inactive Accounts	Total Balance	Inactive Account Balance	Percentage of Balance
██████	██████████	██████	████	38.4%	██████	██████	34.8%
██████	██████	██████	████	29.7%	██████	██████	15.8%
██████	██████	██████	████	43.9%	██████	██████	31.3%
██████	██████	██████	████	49.4%	██████	██████	44.7%
██████	██████████	██████	████	42.2%	██████	██████	21.9%
██████	██████████	██████	████	46.8%	██████	██████	27.5%
██████	██████████	██████	████	41.5%	██████	██████	27.4%
██████	██████	██████	████	43.0%	██████	██████	43.6%
██████	██████	██████	████	22.6%	██████	██████	16.5%
██████	██████████	██████	████	43.5%	██████	██████	37.4%
██████	██████	██████	████	32.3%	██████	██████	24.6%
██████	██████████	██████	████	41.0%	██████	██████	27.0%
██████	██████████	██████	████	23.9%	██████	██████	23.9%
██████	██████	██████	████	41.7%	██████	██████	35.5%
██████	██████████	██████	████	31.3%	██████	██████	22.7%
██████	██████████	██████	████	37.9%	██████	██████	31.9%
██████	██████████	██████	████	34.0%	██████	██████	17.6%
██████	██████	██████	████	38.9%	██████	██████	25.6%
██████	██████████	██████	████	31.6%	██████	██████	26.1%
██████	██████████	██████	████	35.1%	██████	██████	34.1%
██████	██████	██████	████	39.8%	██████	██████	21.5%
██████	██████	██████	████	32.2%	██████	██████	40.0%
██████	██████	██████	████	34.2%	██████	██████	14.2%
██████	██████	██████	████	19.0%	██████	██████	38.6%
██████	██████	██████	████	27.2%	██████	██████	13.2%
██████	██████	██████	████	36.3%	██████	██████	20.4%
██████	██████	██████	████	22.6%	██████	██████	14.5%
██████	██████████	██████	████	21.0%	██████	██████	27.9%
██████	██████	██████	████	37.8%	██████	██████	33.8%
██████	██████████	██████	████	24.9%	██████	██████	13.4%
██████	██████████	██████	████	29.8%	██████	██████	17.9%
██████	██████████	██████	████	37.9%	██████	██████	28.1%
██████	██████████	██████	████	36.3%	██████	██████	13.8%
██████	██████████	██████	████	18.2%	██████	██████	9.7%
██████	██████████	██████	████	25.6%	██████	██████	13.9%
██████	██████████	██████	████	16.8%	██████	██████	9.2%
██████	██████████	██████	████	41.2%	██████	██████	31.8%

²⁸ We contacted the districts marked with asterisks to determine the causes for the inactive account balances.

²⁹ We did not include accounts with zero balances.

APPENDIX E: MANAGEMENT'S COMMENTS



December 6, 2010

To: LUCINE WILLIS, DIRECTOR, AUDIT OPERATIONS

SUBJECT: Transmittal of Draft Audit Report-Express Mail Guarantees (Report Number FF-AR-11-DRAFT)

In general, management agrees with the OIG's findings and no factual inaccuracies were found in the report. Although we agree with the finding that there is an inactive account balance of \$1,898,137 we disagree that this money is "recoverable revenue" as these are trust accounts. We do believe that we need to take action to engage these inactive account holders and will be developing a plan, as discussed further in this document, to do so.

Below is a more detailed response addressing each recommendation in the report.

Recommendation [1]

Evaluate the reasons for late deliveries for American territories and, if it is not possible to significantly improve on-time delivery, determine if they should adjust or eliminate guarantees.

Management Response/Action Plan:

Management agrees with the recommendation to evaluate the reasons for late deliveries for American territories, and to make a determination to adjust or eliminate guarantees.

Target Implementation Date: March 2011

Responsible Official: Robert Raines, Manager, Operational Performance

The Express Mail Program Office will use the analysis provided by the Operational Performance group to make the determination to adjust or eliminate guarantees.

Target Implementation Date: April 2011

Responsible Official: Lisa Bobb-Semple, Express Mail Product Manager

475 L'ENFANT PLAZA SW, ROOM 5100
WASHINGTON DC 20260-5100
WWW.USPS.COM

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Recommendation [2]:

Review military Express Mail and logistics to evaluate reasons for the delays in delivering mail to military personnel and make necessary changes to improve service performance,

Management Response/Action Plan:

Management agrees with the recommendation to review all aspects of the Express Mail Military Service (EMMS) product and the logistics supporting this service; and to take the necessary action to improve overall service performance.

Accordingly, US Postal Service Headquarters and the Military Postal Service Agency have formed a working group to address and evaluate the reasons for the delays in delivering Express Mail to military personnel overseas. This working group has already begun to review various aspects of the EMMS product including a complete review of the logistical network supporting the transportation and delivery. The USPS/MPSA working group will examine the reasons for the late deliveries and make adjustments to the network to achieve timely delivery; or alternatively, management will adjust the Express Mail guarantees to what it can realistically achieve.

Target Implementation Date:

Management has already begun its review of the Express Mail Military Service network and believes that significant improvement will be made over time. The joint working group expects to complete all necessary improvement actions regarding the existing network by the end of June 2011.

Responsible Official:

Jeff Burger, Military Mail Operations Specialist
Robert Raines, Mgr. Operational Performance

Recommendation [3]:

Implement actions to include military ZIP Codes in the Service Delivery Calculator.

Management Response/Action Plan:

Management agrees with the recommendation that we need to have service delivery transparency. We will explore actions to include military ZIP codes in the Service Delivery Calculator and will need to evaluate the financial resources needed to determine the feasibility of this recommendation along with making potential adjustments to the network. Management agrees to determine the requirements for this recommendations as well as necessary funding. Based on resources and funding needed we will determine the best way to proceed.

Target Implementation Date:

By March 2011 requirements will be determined as well as needed funding. Based on the cost and resources needed for this effort, we will determine the best way to proceed.

Responsible Official:

Responsible Official: Lisa Bobb-Semple, Express Mail Product Manager

Responsible Official: Margaret Choiniere, Mgr, Technical Solutions and Integration

Recommendation [4]:

Identify reasons for late Express Mail deliveries to ZIP Codes in the 50 states with the highest volumes of late deliveries and either implement actions to reduce late delivery or determine if they should adjust or eliminate delivery guarantee time.

Management Response/Action Plan:

Management agrees with the recommendation to identify the reasons for late deliveries to ZIP Codes in the 50 states with the highest volumes of late deliveries.

The Operational Performance group will perform analysis to identify the reasons for the late deliveries of Express Mail to the 20 ZIP Codes listed in the OIG report (page 13, Table 5). Management will make a determination for corrective action based on the reason analysis. If operational deficiencies are identified, actions will be initiated to reduce the volume of Express Mail with late delivery at the target ZIP Codes.

Target Implementation Date: March 2011

Responsible Official: Robert Raines, Manager, Operational Performance

The Express Mail Program Office will use the analysis provided by the Operational Performance group to make any determination to adjust or eliminate guarantees.

Target Implementation Date: April 2011

Responsible Official: Lisa Bobb-Semple, Express Mail Product Manager

Recommendation [5]:

Establish a timeframe for and develop a process to analyze Express Mail refunds by origin and destination to evaluate risk and identify necessary changes in services in order to make better business decisions for guarantees.

Management Response/Action Plan:

Management agrees with the recommendation to develop a process to analyze Express Mail refunds by origin and destination. An Express Mail Refunds Visibility Project was started last year to capture Express Mail refunds at retail sites and

send the data to Product Visibility Systems. This information would be displayed in Track and Confirm to prevent duplicate refunds and also passed to EDW for reporting/analysis purposes.

Phase 1 was completed to capture refund data from POS/IRT sites. Phase 2 to capture refund data from non POS/IRT sites via a manual entry application in PTS has not been completed and will need to be implemented.

Express Mail Refunds reporting via EDW has not been completed and will need to be implemented as well.

Target Implementation Date:

November 2011 (however ad hoc reports capturing this information will be made available in Quarter 2)

Responsible Official:

Juliaann Hess, Manager Product Visibility Systems
Ed Ryan, Manager Product Information Reporting

Recommendation [6]:

Reiterate to area vice presidents and appropriate district personnel their responsibility to monitor and close inactive Express Mail Corporate Accounts when appropriate.

Management Response/Action Plan:

Management "conditionally agrees" with this recommendation. We agree that there is a need to reiterate to area vice presidents and appropriate district personnel their responsibility to monitor and close inactive Express Mail Corporate Accounts **when appropriate**. However we believe more importantly, a plan needs to be in place to re-activate inactive account holders versus just simply closing accounts. We will develop a communication plan to reintroduce the benefits of the Express Mail Corporate Account to encourage customers to ship with the Postal Service.

Target Implementation Date:

March 2011

Responsible Official:

Lisa Bobb-Semple, Program Manager

Recommendation [7]:

Communicate current Express Mail Corporate Account inactive account information to area vice presidents for action to be taken by appropriate district personnel.

Management Response/Action Plan:

Management agrees with recommendation to communicate Express Mail Corporate Account inactive account information to Area Vice Presidents so that

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proper procedures are followed in closing or reactivating accounts. In addition, we will pursue the project to automate EMCA apply and manage on line so that trust account customers are encouraged to transition their accounts to credit card/ach debit accounts to better manage their accounts. We will also explore strategies, as noted earlier, to re-activate inactive account holders.

Target Implementation Date:

March 2011

Responsible Official:

Lisa Bobb-Semple, Program Manager

Freedom of Information Act (FOIA)

Management believes this report contains proprietary and business information that should be withheld from disclosure pursuant to the Freedom of Information Act. For example, express mail revenues and service performance details (locations, percentage late, overall performance etc.) could be of potential benefit to firms in economic competition with the Postal Service and should not be disclosed. Further, the Postal Service requests the information to be withheld in accordance with Exemption 39 USA 410 (C)(2)--information of a commercial nature, whether derived from the USPS or another source, that as a good business practice would not be disclosed. If you have any questions about this response, please contact Lisa Bobb-Semple, Express Mail Product Manager at 202-268-3391.



GARY C. REBLIN
VICE PRESIDENT, SHIPPING SERVICES



JAMES P. COCHRANE
VICE PRESIDENT, PRODUCT VISIBILITY AND OPERATIONS
PERFORMANCE



PRANAB M. SHAH
VICE PRESIDENT AND MANAGING DIRECTOR, GLOBAL BUSINESS

[Name(s) of person(s) addressed in OIG draft audit report]
[Title(s)]

cc:
Lisa Bobb-Semple, Express Mail Product Manager
Jeff Burger, Military Mail Operations Specialist
Juliaann Hess, Manager Product Visibility Systems
Marc McCrery, Manager Specialty Shipping
Robert Raines, Manager, Operational Performance
Ed Ryan, Manager Product Information Reporting