



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

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**Financial Controls Over  
Automated Postal Centers**

**Management Advisory Report**

May 17, 2012

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Report Number FI-MA-12-007



# HIGHLIGHTS

May 17, 2012

## Financial Controls Over Automated Postal Centers

Report Number FI-MA-12-007

### **IMPACT ON:**

U.S. Postal Service automated postal centers (APC) – a convenient self-service kiosk, serving as an alternative to the full-service counter – and the customers who use APC services.

### **WHY THE OIG DID THE AUDIT:**

To validate the effectiveness and sufficiency of system verification controls, such as limiting the number of transactions per card per day, to minimize fraudulent APC credit and debit card purchases and to evaluate the effectiveness of internal controls over APC stock examinations.

### **WHAT THE OIG FOUND:**

Controls over APC stock examinations were effective; however, opportunities exist for the Postal Service to reduce fraudulent credit and debit card purchases. Management implemented many security measures to significantly reduce the number and amount of credit card chargebacks (reversals of previously settled transactions). They could further reduce chargebacks and the cost of investigating suspicious credit card activity by implementing [REDACTED]

Management did not previously [REDACTED] because they believed the security measures in place were sufficient. However, in December 2011,

chargebacks more than tripled from the previous month, which amounted to 27 percent of all chargebacks in calendar year 2011. Because of this recent increase, vast improvements to credit card security features, rapidly growing technology, and the popularity of self-service kiosks, we believe the Postal Service should revisit AVS.

### **WHAT THE OIG RECOMMENDED:**

We recommended management conduct and document a feasibility study and [REDACTED] as appropriate, to reduce the number and amount of credit card chargebacks and reduce costs associated with handling chargebacks.

### **WHAT MANAGEMENT SAID:**

Management generally agreed with our recommendation. They will review the level of chargebacks at the end of fiscal year 2013 and complete a cost benefit analysis by March 2014. The analysis will include costs associated with the software that provides print-on-demand stamps at APC kiosks.

### **AUDITORS' COMMENT(S):**

The OIG considers management's comments responsive to the recommendation and corrective actions should resolve the issues identified in the report.

[Link to review the entire report](#)



**Date:** May 17, 2012

**MEMORANDUM FOR:** KELLY M. SIGMON  
VICE PRESIDENT, CHANNEL ACCESS

ELIZABETH SCHAFER  
TREASURER

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

**FROM:** John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

**SUBJECT:** Management Advisory Report – Financial Controls  
Over Automated Postal Centers  
(Report Number FI-MA-12-007)

This report presents the results of our review of the financial controls over automated postal centers (Project Number 11BG018FF000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Denice Millett, director, Policy Formulation and Financial Controls, or me at 703-248-2100.

Attachments

cc: Joseph Corbett  
Paul Vogel  
Karen C. Mastervich  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our review of financial controls over automated postal centers (APC) (Project Number 11BG018FF000). Our objectives were to determine whether system verification controls for APCs were in place and sufficient to minimize fraudulent credit and debit card purchases and whether internal controls over APC stock examinations were effective. This review addresses financial risk. See [Appendix A](#) for additional information about this audit.

The APC is a self-service, automated retail kiosk placed in retail lobbies to enable customers to ship packages, mail letters, buy stamps, and pay Post Office™ box fees. The goal of the APC program is to provide customers with a convenient, self-service alternative to the full-service counter. In fiscal year (FY) 2011, 2,492 APC kiosks generated nearly \$545 million in revenue.

## Conclusion

Internal controls over APC stock examinations were effective; however, we identified opportunities to reduce fraudulent credit card purchases related to APC kiosks. Specifically, although the U.S. Postal Service implemented many security measures to help prevent and detect fraudulent debit and credit card activity and has significantly reduced the number of fraudulent credit card transactions and the amount of credit card chargebacks since 2009,<sup>1</sup> opportunities exist for management to further reduce credit card chargebacks and other costs associated with investigating suspicious credit card activity. In addition, opportunities exist to reduce costs associated with handling chargebacks by [REDACTED].<sup>2</sup>

Management did not previously [REDACTED] because they believed that security measures already implemented would significantly reduce the number of fraudulent credit card transactions and the amount of fraudulent credit card activity. However, between November and December 2011, the amount of credit card chargebacks more than tripled to \$29,592 and accounted for 27 percent of all chargebacks in 2011. Because of the recent increase in chargeback activity, rapidly growing technology, vast improvements to credit card security features, and the popularity of self-service kiosks, we believe the Postal Service should revisit [REDACTED].

## Automated Postal Centers Security Features

An important factor in controlling fraud is implementing security measures that can adapt to the level of risk in each transaction. Since the introduction of kiosks in 1998, management has continuously implemented security measures to detect and prevent credit and debit card fraud. Specifically, management initiated a [REDACTED],<sup>3</sup> [REDACTED]

<sup>1</sup> A chargeback occurs when the financial institution reverses a previously settled credit or debit card transaction.

<sup>2</sup> A system used to verify the address of a person claiming to own a credit card.

<sup>3</sup> [REDACTED]

[REDACTED]

In addition, the Postal Service periodically monitors all credit card activity. For example, management has used monitoring to identify transactions [REDACTED] anomalies such as transactions [REDACTED], and activity where [REDACTED]. If suspicious credit card activity is identified, management can take immediate action to restrict the user from making further purchases at the APC.

Most of the risk associated with the APC self-service kiosks rests with credit card purchases. Credit card fraud is on the rise, increasing 5 percent between 2009 and 2010.<sup>4</sup> Debit cards do not present as much risk to merchants as credit cards because customers must enter a personal identification number (PIN) to complete a purchase and the bank limits the debit card purchase to the customer's available bank balance at the time of the purchase. [REDACTED]

During the audit, the U.S. Postal Service Office of Inspector General (OIG) reviewed the frequency of the stamp stock counts of the APC kiosks and field-tested internal security controls for credit and debit card transactions for APCs. We judgmentally selected five APC kiosks in the Dallas, TX area and tested the following controls that management put in place since first putting the kiosks into service in 1998:

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

We reviewed the APC credit examination histories in the Postal Service's Accounting Data Mart for October 2009 through September 2010. Based on the items we reviewed, the Postal Service conducted APC stock examinations quarterly, as required. In addition, we examined the five internal security measures listed previously and found they were in place and operating as intended.

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<sup>4</sup> *Consumer Reports*, "House of Cards: Why Your Accounts Are Vulnerable to Thieves," June 2011 (<http://consumerreports.org>).

## Chargebacks

The Postal Service reduced the number and amount of credit card chargebacks from 2009 to 2011. Although management accepts some level of credit card fraud risk with a self-service kiosk, we believe they could further diminish credit card chargebacks by implementing additional credit card security measures to prevent loss due to theft or fraud from credit cards.

In 2009, the U.S. Postal Inspection Service (Inspection Service) took over monitoring credit card activity for the Postal Service because they had more resources and the authority to take investigative action. For example, in addition to analyzing for anomalies as mentioned previously, the Inspection Service could set up [REDACTED]

[REDACTED] of the APC kiosks in areas with known or suspected fraudulent activity. Since 2009, management has seen a significant reduction in chargeback activity, as shown in Table 1.

**Table 1: APC Chargebacks**

Calendar Year	Number of Chargebacks	Amount Expensed
2009	8,739	\$316,853
2010	4,239	164,748
2011	3,093	111,358
<b>Total</b>	<b>16,071</b>	<b>\$592,959</b>

Source: Postal Service Payment Technologies specialist.

In April 2005, the Postal Service Payment Technologies Office contacted major credit card representatives<sup>6</sup> to obtain [REDACTED] requirements for APC kiosk credit card purchases. The AVS requires purchasers to enter the billing ZIP Code associated with the credit card. Implementing a billing ZIP Code feature could reduce the number of fraudulent chargebacks for non-face-to-face transactions by cross-referencing the cardholder’s billing ZIP Code information with the card issuer’s records. In addition, [REDACTED]

[REDACTED] The AVS billing address ZIP Code security feature is already in use in other businesses such as gas stations, retail merchants, and some fast food restaurants.

<sup>5</sup> [REDACTED]

<sup>6</sup> The major credit card companies – American Express; Discover Financial Services; JCB International Credit Card Company, Ltd.; MasterCard Worldwide; and Visa International – founded the Payment Card Industry Security Standards Council in 2006.

Subsequent to April 2005, the Postal Service decided to [REDACTED] for APCs; however, limited resources and other priorities within the Treasury office kept [REDACTED] [REDACTED] was canceled because management and the Inspection Service believed the security measures already implemented would sufficiently address chargeback fraud. The [REDACTED] who was advising the APC program office believed [REDACTED] [REDACTED] only consider it a slight inconvenience to input ZIP Codes if the approval required it. We were unable to discuss the issue with the manager who made the ultimate decision to [REDACTED] [REDACTED]

[REDACTED] the decision not to [REDACTED] and could not provide any written documentation of research or analysis to support the decision. We held discussions with a field postal inspector working APC credit card fraud who believes that AVS could reduce credit card fraud further. [REDACTED] [REDACTED]

Although management previously decided not to [REDACTED] in December 2011 credit card chargebacks more than tripled from the previous month to \$29,592 and accounted for 27 percent of all chargebacks in calendar year 2011. In addition, APC management is currently upgrading key components of the existing APC kiosks to convert them from dispensing stamp sheetlets to printing on-demand Forever Postage stamps. Additionally, management plans to obtain an additional 300 kiosks from the current supplier. Because of the recent increase in chargeback activity, unavailable documentation to support the decision not to [REDACTED] rapidly growing technology, vast improvements to credit card security features, and the popularity of self-service kiosks, we believe the Postal Service should revisit [REDACTED] Management should specifically address AVS and other related payment technology verifications that may be available and determine any cost savings that could be available with new technology, and the costs associated with implementing such technology. A written cost-benefit analysis should include opportunities to further reduce chargebacks and potential opportunities to reduce the cost associated with chargeback activities.

## Recommendation

We recommend the vice president, Channel Access, coordinate with the treasurer, to:

1. Conduct and document a feasibility study and implement, as appropriate, Address Verification System security features to reduce the number and amount of credit card chargebacks and reduce costs associated with handling chargebacks.

## Management's Comments

Management agreed with the finding and recommendation. They stated they will review the level of chargebacks at the end of FY 2013 and determine by March 2014 if a full cost-benefit analysis is required. In addition, the delay until March 2014 will enable management to better identify costs associated with the new retail software that will allow print-on-demand stamps at APC kiosks.

Management expressed concern related to the report's conclusion that reduced chargebacks will result in reduced monitoring costs. In addition, they noted other statements that were inaccurate or could be misleading, including that management cannot cancel debit or credit cards that have been misused; many types of cards, not just prepaid Visa<sup>®</sup> cards, have restrictions on use; the AVS technology inherently limits the problem [REDACTED] and the Treasury office decided [REDACTED] after April 2005. Management also stated that checking cards against user identification is against some card issuer rules.

See [Appendix B](#) for management's comments in their entirety.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and corrective actions should resolve the issues identified in the report.

We clarified the report to address management's concerns. Specifically, we removed all references to costs associated with monitoring as well as the implication that Visa<sup>®</sup> is the only card with restrictions. We clarified the Postal Service's ability to cancel a card that has been misused, [REDACTED]

[REDACTED]

## Appendix A: Additional Information

### Background

Before 1998, the Postal Service provided self-service kiosks for customers to purchase stamps. In 1998, Postal Service management expanded and strengthened this service by implementing a self-service platform that evolved into the APC kiosk. The APCs give customers access to the most frequently needed products and services up to 24 hours a day, 7 days a week, using a touch screen that shows customers the available services, products, and information available. All self-service kiosks accept debit and credit cards as a form of payment. Currently, the Postal Service has placed 2,492 APC kiosks in retail lobbies nationwide.

Merchants who accept credit cards must determine what form or forms of verification they will use to ensure that only authorized cardholders make credit card purchases. The most conventional form of verification is a signature the merchant collects so that the credit card company can verify it for authentication in the event of a fraud claim. In addition, [REDACTED]

[REDACTED] The APC was designed to be an unmanned kiosk allowing customers to complete transactions without assistance. [REDACTED]

### Objectives, Scope, and Methodology

Our objectives were to determine whether system verification controls for APCs were in place and sufficient to minimize fraudulent credit and debit card purchases and if internal controls over APC stock examinations were effective. We conducted this review from August 2011 through May 2012 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We reviewed counts of the APC storage repository and kiosk inventories generated from October 2009 through September 2010. We conducted on-site field testing of APC system controls during September and October 2011. We interviewed Postal Service officials to determine roles and responsibilities and obtained information related to APC chargebacks. We reviewed applicable Postal Service policies. We discussed our observations and conclusions with management on February 7, 2012, and included their comments where appropriate.

We assessed the reliability of computer-generated data from the Accounting Data Mart, Bank of America<sup>®</sup> Merchant System, American Express<sup>®</sup>, and Discover Network for obtaining chargeback data. We used various data analysis techniques to perform specific internal control and transaction tests. We determined that the data were sufficiently reliable for the purposes of this report.

#### Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit.

## Appendix B: Management's Comments



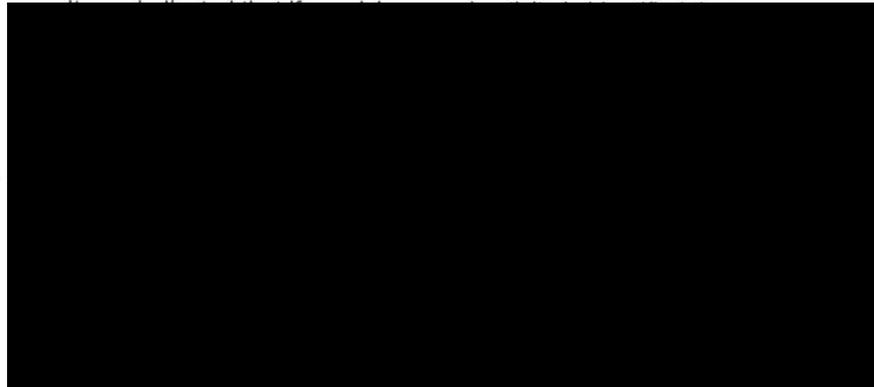
May 7, 2012

LUCINE M. WILLIS  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Financial Controls Over Automated Postal Centers (Report Number  
FI-MA-12-DRAFT)

Management agrees with the overall findings of the report, but wishes to address specific statements that are not accurate or could be considered misleading. The most significant of those are:

- The conclusion indicates that reduced chargebacks will result in reduced costs for monitoring. Monitoring is one of the tools used for risk mitigation and would continue regardless of the level of chargebacks.



- The report indicates that the Postal Service decided at that time, to [redacted]. From the document, it appears that the time referred to is April 2005. At that time, we contacted the card associations to identify the requirements and determine if we would be permitted to do AVS on the APCs. Initially, we were advised by one card association that it was against the rules. Subsequently after a few years, the card association agreed that [redacted]. Requirements were identified for the required changes on the APCs and the Payment related systems. For both system types, it was necessary for the changes to be fit into the release schedule. It was determined that the changes should be put on hold because the level of chargebacks was not at a high level. It is also recommend that the term Treasury be used rather than the payment technology group to avoid confusion.



Recommendation:

Management conduct and document a feasibility study, and implement AVS security features, as appropriate, to reduce the number and amount of credit card chargebacks and reduce costs associated with handling chargebacks.

Management Response/Action Plan:

Management agrees that a feasibility study may be warranted depending upon the level of future chargebacks. During our initial discussion, we were not aware that the APCs would be changing in the near future to sell print on demand stamps rather than sheetlets. Since sheetlets have been the primary product of fraudulent APC sales, the level of chargebacks may decrease significantly. Management will review the level of chargebacks at the end of FY 13 and determine at that point if a full cost benefit analysis is required. This delay will also enable costs to be identified based on the new retail software.

Target Implementation Date:

An analysis will be completed by March, 2014.

Responsible Official:

Kelly M. Sigmon, Vice President, Channel Access and Elizabeth M. Schafer, Treasurer

The section on Automated Postal Centers Security Features, as well as management's comments relating to this section should be exempt from disclosure under the Freedom of Information Act (FOIA). This information should be exempted from disclosure due to its confidential nature as under good business practices it would not be publically disclosed. This information would be of potential benefit to individuals seeking to defraud the Postal Service.

  
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Kelly M. Sigmon  
Vice President, Channel Access

  
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Elizabeth M. Schafer, Treasurer

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cc: Joseph Corbett  
Paul Vogel  
Karen C Mastervich  
Manager, Corporate Audit Response Management