OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Electronic Parcel Payment Systems Internal Control Requirements

Audit Report

September 27, 2013

Report Number MS-AR-13-012

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

September 27, 2013

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BACKGROUND:

Postage may be purchased through a number of electronic methods, including PC Postage over the Internet and ePostage (a part of the Electronic Verification System (eVS). PC Postage and eVS have grown rapidly. The U.S. Postal Service generated about $3.6 and $5.1 billion in revenue from these payment systems in fiscal years (FY) 2011 and 2012 respectively.

Revenue assurance controls for postage rely on automated processes such as the use of processing machinery optical character readers backed up by employee inspection of individual parcels. Our objective was to evaluate the internal control requirements for electronic parcel payment systems, including PC Postage and the eVS.

WHAT THE OIG FOUND:

Internal controls were inadequate to identify shortpaid and unpaid postage for PC Postage and eVS. Specifically, [redacted] of the [redacted] parcels that we mailed with shortpaid or unpaid postage were delivered with no additional postage assessed. [redacted]

In addition, when shortpaid eVS mail was identified, the Postal Service's methodology for calculating the postage due from mailers was flawed. [redacted]

For PC Postage parcels, we estimate the Postal Service did not collect [redacted] million in shortpaid and unpaid postage in FY 2012. We identified about $1.6 billion in revenue at risk related to the Postal Service's methodology for calculating shortpaid eVS mail.

WHAT THE OIG RECOMMENDED:

We recommended the Postal Service form a taskforce comprised of the various Postal Service functions and mailer representatives to identify and implement automated controls. [redacted] Further, the Postal Service should modify the statistical sampling calculation for shortpaid parcels and implement software changes to the eVS to correctly validate destination entry rates.

Link to review the entire report

September 27, 2013

MEMORANDUM FOR: JAMES P. COCHRANE
VICE PRESIDENT, PRODUCT INFORMATION

PRITHA N. MEHRA
VICE PRESIDENT, MAIL ENTRY AND PAYMENT TECHNOLOGY

E-Signed by Inspector General
VERIFY authenticity with eSign Desktop

FROM: Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Revenue and Performance

SUBJECT: Audit Report – Electronic Parcel Payment Systems Internal Control Requirements
(Report Number MS-AR-13-012)

This report presents the results of our audit of Electronic Parcel Payment Systems Internal Control Requirements (Project Number 13RG009MS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Janet Sorensen, director, Sales and Marketing, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction

This report presents the results of our audit of Electronic Parcel Payment Systems Internal Control Requirements (Project Number 13RG009MS000). Our objective was to evaluate the internal control requirements for electronic parcel payment systems, including PC Postage and the Electronic Verification System (eVS). This audit was self-initiated. See Appendix A for additional information about this audit.

PC Postage and eVS are distinct electronic payment solutions designed for different types of customers to pay for postage and fees.

- PC Postage allows mailers to set up an account with an authorized[1] provider in order to use an Internet connection, computer, and printer to print postage and fees. The PC Postage authorized provider charges the mailer's credit card or obtains payment through an automated clearing house[2] debit. Mailers may use PC Postage in conjunction with any authorized form of mail entry, just like stamps and postage meter strips. PC Postage labels have an Information-Based Indicia (IBI) barcode which contains the postage paid, mail class, and other mailpiece characteristics such as, mailer, origin ZIP Code, and destination ZIP Code. For some mail classes mailers can choose to have the postage amount hidden. The U.S. Postal Service identifies and collects shortpaid and unpaid PC Postage for parcels verified at the retail window.

- eVS is an electronic manifest mailing system that allows high volume[3] parcel mailers to document and pay postage by transmitting electronic manifest files to the Postal Service. eVS mailings enter the mail stream through origin facilities,[4] network distribution centers (NDC), sectional center facilities (SCF), or destination delivery units (DDU).[5]

  Within eVS, ePostage is an electronic payment method used by authorized e-retailers, such as Overstock.com, that allows the Postal Service to receive payment from one central e-retailer account instead of receiving payments from numerous partners or merchants of the e-retailer. For example, Overstock.com authorizes individual merchants to print mailing labels, generate an electronic manifest for the Postal Service, and pay the appropriate postage. Overstock.com collects the postage from the merchants that printed the labels. ePostage mailings

[1] The three authorized PC Postage providers are Endicia.com, Pitney Bowes, and Stamps.com.
[2] Automated Clearing House is a nationwide electronic funds transfer system that provides for the inter-bank clearing of credit and debit transactions and for the exchange of information among participating financial institutions.
[3] Minimum of 200 parcels per mailing.
[4] Origin facilities include business mail entry units and detached mail units where the Postal Service has traditionally taken possession of bulk mail from business mailers.
[5] NDCs and SCFs are Postal Service facilities where mail is sorted. DDUs are Postal Service facilities where mail carriers pick up the mail and deliver it to its final destination.

are generally single piece mailings that enter the mail stream through the retail counter, collection boxes or carrier pickup.

PC Postage and eVS controls

The Postal Service utilizes several automated tools to enhance its strategy for detecting shortpaid PC Postage. Specifically, Automated Package Processing System (APPS) and the Automated Parcel and Bundle Sorter (APBS) machines, which are located at some processing plants, have the capability to record the dimension, weight, and postage on a package. This information is transmitted to the Transactional Record Processor (TRP)[6] system. TRP is a revenue protection application that analyzes mailpiece data and identifies potential revenue deficiencies. TRP captures data from PC Postage transactions records, mail acceptance procedures, mail processing equipment, and delivery units and identifies potentially shortpaid parcels. This data is currently used primarily by the Postal Inspection Service.

In addition, The Postal Service recently implemented the Passive Adaptive Scanning System (PASS). The PASS machines are located at delivery units and can use available data to alert the unit[7] of parcels that may contain insufficient postage. If a parcel is identified by the PASS machine as having insufficient postage, the delivery unit would still need to conduct a verification of the parcel to assess the insufficient postage. In addition, the PASS machines were designed to have a postage assessment function, which could be used to bill the sender for shortpaid PC Postage. The Postal Service also relies on employees to detect shortpaid postage.

The Postal Service samples eVS and ePostage mailings to ensure that the postage paid on the manifest is correct. Specifically, Postal Service calculates the postage for the sampled parcels and compares that amount to the postage paid for those parcels on the manifest.

Table 1 shows the year the Postal Service initiated PC Postage and eVS and the amount of revenue each generated over the past 2 years.

[6] Formerly Total Revenue Protection.
[7] PASS will utilize TRP to alert delivery unit clerks of potentially shortpaid parcels so further action can be taken.

Table 1. Electronic Parcel Payment Systems

Parcels	Year Started	Revenue (in billions) FY 2011	FY 2012
PC Postage[8]	1999	$2.7	$3.5
eVS [9]	2005	$1.0	$1.6

Source: Enterprise Data Warehouse and Business Mailer Support.

While the Postal Service has various processes in place to verify postage is paid for these different postage payment methods, mailpieces are sometimes accepted, processed, and delivered with insufficient or unpaid (absent, duplicated, replicated, counterfeited, or otherwise altered) postage. Mail which has insufficient postage is considered shortpaid. All types of mail experience some level of shortpaid postage, and this results in revenue deficiency for the Postal Service.

Conclusion

Internal controls were inadequate to identify shortpaid and unpaid postage for PC Postage and eVS. Specifically, [redacted] ([redacted] percent) of the [redacted] parcels that we mailed with shortpaid or unpaid postage were delivered with no additional postage assessed. [redacted] While we believe the Postal Service should continue to work towards developing and implementing functional automated revenue protection internal controls, it could implement interim controls to better identify these shortpaid parcels and thus mitigate revenue deficiencies.

We estimate the Postal Service did not collect [redacted] million in FY 2012[10] in shortpaid and unpaid postage for PC Postage parcels. Additionally, we identified about $1.6 billion in revenue at risk related to the Postal Service's methodology for calculating shortpaid eVS mail. See Appendix B regarding these monetary and other impacts. We also noted another matter related to the Postal Service's review of Privacy Act[11] requirements when developing eVS and ePostage. Specifically, the Postal Service had not reviewed whether its collection and handling of personally identifiable information (PII) complied

[8] Figures include both letters and parcels where postage was paid using PC Postage.
[9] eVS revenue includes $61,066 of ePostage revenue in fiscal year (FY) 2012. Although ePostage was initiated in FY 2011, it generated less than $1,000 during FY 2011.
[10] The Postal Service samples mail for weight, revenue, and additional characteristics and uses statistical programs data for product and service specific information. Based on Origin Destination Information System – Revenue, Pieces, and Weights (ODIS-RPW) data, the Postal Service incurred [redacted] million in losses during FY 2012 due to shortpaid and unpaid parcels.
[11] The Privacy Act (5 U.S.C. 552a).

with the Privacy Act. The Postal Service corrected this issue during the audit and therefore, we are not making a recommendation regarding this matter.

Shortpaid and Unpaid Postage

The Postal Service's internal controls are not adequately detecting shortpaid postage. We mailed 189 parcels that contained shortpaid or unpaid postage using PC Postage and eVS/ePostage payment methods. Of these, 186 (98 percent) of the parcels were accepted and delivered with no additional postage assessed (see Table 2).

Table 2. Test Results

Type of Postage	Pieces Mailed	Pieces Detected at Acceptance or Delivery
PC Postage	[redacted]	[redacted]
eVS	[redacted]	[redacted]
ePostage (sub-set of eVS)	[redacted]	[redacted]
Total	[redacted]	[redacted]

Source: U.S. Postal Service Office of Inspector General (OIG) prepared.

Per Postal Service data, shortpaid postage for PC Postage parcels was [redacted] million and [redacted] million[12] in FYs 2011 and 2012, respectively, exclusive of hidden postage. We projected shortpaid postage to be [redacted] million and [redacted] million for FYs 2013 and 2014, respectively, based on a 20.9 percent growth rate for PC Postage. For hidden postage, we estimate that shortpaid and unpaid postage for FY 2012 may be an additional [redacted] million.[13] See Appendix B.

PC Postage

We mailed [redacted] PC Postage parcels with insufficient postage and [redacted] additional parcels with duplicate or counterfeit labels for a total of [redacted] parcels. Employees delivered 68 of the [redacted] parcels without detection or collection of additional postage. A retail associate identified one shortpaid parcel when we presented it at the retail counter and did not allow us to mail it. Details of the results from our test mailings of PC Postage parcels are described in Table 3.

[12] According to ODIS-RPW data, shortpaid postage for PC Postage parcels was [redacted] million and [redacted] million ([redacted] million total) in FYs 2011 and 2012. During our observations we noted mailpieces with hidden postage containing revenue deficiencies.

[13] We estimated that shortpaid and unpaid hidden postage during 2012 was approximately the same as unhidden postage. According to statistical program reports [redacted] percent of sampled PC Postage mailpieces contained postage that could not be read. During our limited observations, we found that most of these mailpieces contained hidden postage. However, because our sampling of packages with hidden postage was limited, we did not claim this amount as monetary impact.

Table 3. Shortpaid PC Postage Mailings

Method Used for Mailing	Shortpaid Mailpieces Mailed	Shortpaid Mailpieces Detected	Shortpaid Mailpieces Not Detected
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]

Source: OIG prepared.

PC Postage products allow mailers to purchase and print postage with IBI directly onto mailpieces and shipping labels and include features to facilitate mail verification. For example, PC Postage barcodes contain embedded mailpiece information and unique digital signatures that can be used to detect duplicate and counterfeit postage. PC Postage providers also transmit daily logs with an accounting of every PC Postage indicia created. [redacted]

- [redacted]

- [redacted]

[redacted]

[redacted]

eVS/ePostage

We mailed [redacted] eVS and [redacted] ePostage parcels with counterfeit labels for a total of [redacted] parcels. Employees delivered [redacted] of the [redacted] parcels without detection. The other two parcels were detected by Postal Service personnel. Details of the results of our test mailing of eVS and ePostage parcels are described in Table 4.

[16] Postal Service, Service Talks.

Table 4. Counterfeit eVS and ePostage Test Mailings

Method Used for Mailing	Counterfeit Label Mailpieces Mailed	Counterfeit Label Mailpieces Detected	Counterfeit Label Mailpieces Not Detected
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]

Source: OIG prepared.

The Postal Service allows eVS mailers to evidence postage information on a manifest instead of on each individual mailpiece, but requires them to include features to facilitate mail verification. eVS mailers are required to provide a manifest containing specific information for each package mailed and the applicable postage amount for each piece. Mailpieces are required to contain a mailer identification (ID), barcode and a mailpiece sequence number that references it to the manifest. eVS mail is sampled and postage deficiencies are taken directly from the mailer's account. [redacted]

- [redacted]
- [redacted]
- [redacted]

[redacted]

Solutions

Until automated internal controls are operational and effective, there are interim steps the Postal Service can take to improve revenue protection during mail induction and at mail sorting facilities. Specifically, the Postal Service could:

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

Additional Opportunities

[redacted]

[redacted]

[redacted]

Conversely, while eVS and ePostage do not contain embedded information, they are compared against a manifest which is used for payment information. If the payment is inaccurate, the Postal Service can collect the amount directly from the permit holder's account for all their mailings that month. With PC Postage the Postal Service must collect shortpaid postage from a customer on each individual mailpiece.

The Postal Service has the opportunity to utilize the various features that each payment solution offers. Table 5 sets forth some of the various characteristics of each payment solution:

Table 5: Payment System Features

Feature	[redacted]	[redacted]	[redacted]
How is shortpaid postage determined and collected.	Sampled when bulk mail is inducted and by statistical programs personnel and compared to the manifest. The shortpaid postage results are projected to all mailings during the month and the funds collected from the permit holder's account.	Retail counter verifications and samples taken by Statistical Programs personnel are compared to the manifest. The shortpaid results are projected to all mailings during the month and the funds collected from the permit holder's account.	Each mailpiece is tested and billed to a customer.
Visibility of Postage paid and mailpiece characteristics.	Information on [redacted] on label.	Information on [redacted] on label.	Information on [redacted]. May require a [redacted] if presented in [redacted]
Counterfeit label detection.	[redacted]	[redacted]	Unique digital signature on each parcel.

Source: OIG prepared.

Other Matters

Privacy Concerns Over eVS Manifests

The Postal Service had not reviewed Privacy Act[18] requirements related to ePostage and eVS. Specifically, the manifests that eVS users provide to the Postal Service contain PII, including specific customer names and addresses. On May 28, 2013, we discussed with eVS and Postal Service Privacy Office employees our concerns that the Postal Service had not conducted a privacy review of eVS. In response, a Privacy and Records specialist expeditiously conducted a review and concluded that PII is not at risk within eVS, and detected no other privacy issues of concern. Because corrective actions were taken as a result of our review, we will not make a recommendation regarding this issue.

Recommendations

We recommend the vice president, Product Information:

1. Form a taskforce comprised of the various Postal Service functions and mailer representatives to identify and implement automated controls to identify parcels with insufficient electronic postage.

2. Develop interim controls, such as establishing roles and responsibilities in the identification of shortpaid mailpieces, providing enhanced scanners to clerks and carriers, judgmentally sampling PC Postage parcels at sorting facilities and delivery units, and increasing the accuracy of scales on mail processing equipment, to improve detection of shortpaid parcels until automated controls are in place.

We recommend the vice president, Mail Entry and Payment Technology:

3. Modify the statistical sampling calculation for Electronic Verification System (eVS) parcels that will provide better assurance that the Postal Service is properly projecting the amount of shortpaid postage due from eVS customers.

4. Implement software changes to the Electronic Verification System in order to correctly validate destination entry rates claimed by mailers.

Management's Comments

Management partially agreed with the findings. Management agreed with recommendations 1 and 4, and partially agreed with recommendations 2 and 3. Management disagreed with the amount of revenue at risk. In subsequent correspondence, management agreed with the [redacted] million of monetary impact for

[18] The Privacy Act (5 U.S.C. 552a).

FY 2012, but did not indicate their agreement or disagreement with the monetary impacts reported for FYs 2011, 2013, and 2014.

Regarding recommendation 1, management stated they would work with key stakeholders including product information, finance, retail, and operations to review automated verification capabilities as a means of improving revenue assurance for shortpaid parcels. Management plans to review information from various sources and will determine necessary actions based on analysis of cost effective options to enhance revenue assurance. Management plans to complete this analysis by the second quarter of FY 2014 and implement corrective actions by the third quarter (June) of FY 2014.

Regarding recommendation 2, management partially agreed, stating they want to take 6 months to analyze shortpaid data and sources to understand key attributes in order to develop short and long term plans. Management plans to complete this analysis by the second quarter of FY 2014 and implement corrective actions by the third quarter (June) of FY 2014.

Regarding recommendation 3, management partially agreed, stating they are sampling a sufficient number of parcels and will evaluate the weighting of the samples to ensure that all parcels have the same probability of being sampled. Management also stated they will evaluate the number of samples at a mailer level by December 2013 and make necessary incremental changes by December 2014.

Regarding recommendation 4, management agreed with the recommendation but disagreed with the statement [redacted] Management stated that DDU scans are used to validate destination entry at DDUs. Management will implement software changes by January 2015.

See Appendix C for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 1, 2, and 4 and corrective actions should resolve the issues identified in the report.

Regarding recommendation 1, we agree that the intended actions are responsive, but caution the Postal Service that long term corrective actions should address the expected impact on known shortpaid and unpaid postage.

Regarding recommendation 2, we agree that the intended actions are responsive. It is reasonable for the Postal Service to conduct analysis during a 6 month period as long as they develop and implement interim controls until automated internal controls are operational and effective.

Regarding recommendation 3, management's comments are not responsive. While the OIG agrees with the Postal Service that the sample size is sufficiently large and the weighting of the sample should be examined, the core issue is that the Postal Service is not correctly calculating the projection of shortpaid revenue with the sampling system in place. We reemphasize that the Postal Service needs to amend the calculation used to more accurately reflect shortpaid revenue for all EVS mailers.

Regarding recommendation 4, we agree that scans are an important aspect of revenue assurance in addition to the recommended software changes in our report. [redacted] We consider management comments responsive to our recommendation because management agreed to make the software changes to correct this issue by January 2015. Management previously agreed to make the software changes in 2009, but software changes made to date have not resolved the issue.

Regarding the disagreement with our reported other impact, the $1.6 billion other impact is the amount of eVS mailings that are subjected to the statistical formula that does not include the appropriate sampling weights and therefore are at risk.

The OIG considers recommendations 2 and 4 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.

Appendix A: Additional Information

Background

PC Postage and eVS are distinctively different electronic payment solutions used to pay for postage and fees. The Postal Service adopted PC Postage in 1999 and PC Postage customers include individuals and businesses. PC Postage customers establish an account with an authorized PC Postage provider and compute and print postage through the Internet using a computer and printer. PC Postage labels contain an IBI barcode and a tracking barcode. The IBI barcode contains the postage paid, mail class, mailpiece characteristics, mailer, origin, and destination. Customers can have the postage paid displayed directly on the label, or to have the postage amount hidden. Using cryptographic digital signatures protects the data in the IBI barcode from modification. Figure 1 contains an example of a PC Postage label.

Figure 1. PC Postage Label

Source: Domestic Service Talk, *ePostage job aid.*[19]

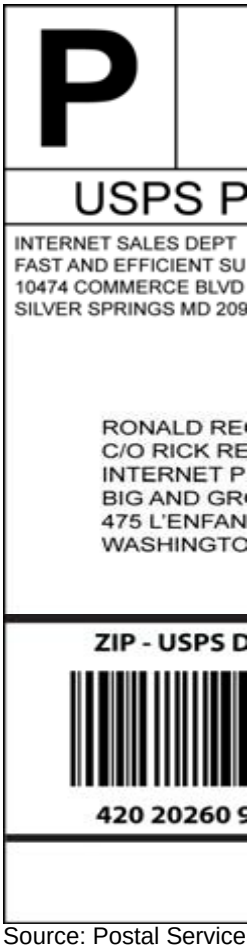
Mailers may use PC Postage in conjunction with any authorized form of mail entry, just like stamps and postage meter strips. PC Postage mail may enter the mail stream

[19] Service Talks are periodically given to Postal Service employees and are published as policies and procedures on the Postal Service Customer Services Operations and Retail webpage.

through the retail counter, collection boxes or carrier pickup. Retail clerks are required to verify PC Postage mail at the retail counter.

The eVS is an electronic manifest mailing system that allows mailers to document and pay postage and fees by transmitting electronic files to the Postal Service without generating paper manifests, postage statements, or clearance documents. eVS allows parcel mailers to prepare parcel mailings, submit electronic documentation for payment, and to streamline their internal business processes as well as those with the Postal Service. The Postal Service designed eVS for parcels only. eVS mailings enter the mail stream through origin facilities, NDCs, SCFs, or DDUs. The Postal Service registers and identifies every eVS mailer with a Postal Service issued mailer ID number. An eVS label contains a permit imprint and a tracking barcode. The tracking barcode contains the mailer ID and the mailpiece sequence number. Figure 2 contains an example of an eVS label.

Figure 2. eVS Label



Source: Postal Service Parcel Labeling Guide, July 2012.

Mailers pay for eVS mailings with a permit imprint account. eVS mailers prepare a manifest of every parcel. The manifest contains the mailer ID, mailpiece sequence number, postage, parcel characteristics, origin, and destination for each parcel. The

mailer electronically transmits the manifest to the Postal Service each day and pays the postage.

Within eVS, ePostage is an electronic payment method used by authorized e-retailers such as Overstock.com. ePostage allows the Postal Service to receive payment from one central e-retailer account instead of receiving payments from numerous partners or merchants of the e-retailer. For example, Overstock.com authorizes individual merchants to print mailing labels, generates an electronic manifest for the Postal Service, and pays the appropriate postage. Overstock.com is responsible for collecting the postage from the merchants that printed the labels. ePostage allows customers to deposit the mail locally at the retail counter, collection box, or carrier pickup. Like eVS, ePostage labels contain a permit imprint and a tracking barcode. The tracking barcode contains the mailer ID and the mailpiece sequence number. ePostage manifests contain the same information as other eVS manifests. Figure 3 contains an example of an ePostage label.

Figure 3. ePostage Label

Source: Retail Service Talk, *Scanning ePostage Label.*

The Postal Service samples eVS and ePostage mailings for each mail class and product to ensure that the postage paid on the manifest is correct. Postal Service calculates the postage for the sampled parcels and compares that amount to the postage paid for those parcels on the manifest. If the correct postage for the sampled parcel is more than 1.5 percent of the postage paid on the manifest, the eVS system in PostalOne! assesses additional postage for the entire mailing based on that percentage.

The Postal Service also reviews eVS and ePostage mailings for unmanifested parcels The Postal Service scans eVS and ePostage parcels upon acceptance. The receipt is

recorded in PTS. The eVS compares the parcels recorded as received in PTS to the manifest. If the eVS identifies a parcel that is not listed on the manifest, PostalOne! charges the mailer additional postage for the unmanifested parcel.

Objective, Scope, and Methodology

Our objective was to evaluate the internal control requirements for electronic parcel payment systems, including PC Postage and eVS. To accomplish our objective we interviewed Postal Service and industry experts; and reviewed criteria, data, and other supporting documents to identify and evaluate controls. We mailed 189 test parcels throughout the country to determine if established controls would detect shortpaid and unpaid items for PC Postage and eVS/ePostage. We determined legal authority, requirements, and issues through review of applicable laws and regulations and interviews with legal experts including the Postal Regulatory Commission. We analyzed ODIS-RPW data and assessed its reliability by testing random samples of IBI mail. We compared the results of our tests to ODIS-RPW data. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted this performance audit from January through September 2013 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 that 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 on September 4, 2013, and included their comments where appropriate.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
Revenue Sharing Agreements	FI-AR-12-004	9/14/2012	$1.4 million

Report Results: For three of four agreements reviewed, management and alliance partners complied with agreement requirements, revenue sharing amounts were valid and accurate, and the relationship was efficient and effective. For the Click2Mail agreement, management did not implement a process to validate postage and the revenue from the production of mailpieces or require the alliance partner to provide detailed data on the number of visitors and total visits the Click2Mail website receives from the Postal Service's website. In addition, the Postal Service's relationship with Click2Mail needed improvement. Specifically, the Postal Service did not address Click2Mail's concerns in a timely manner, which caused a revenue loss of about $447,000 within the past year. Finally, management did not maintain a central repository for revenue sharing agreements to ensure timely, efficient, and accurate retrieval of information; and policies and procedures on establishing and monitoring revenue sharing agreements were not clear. The report recommended developing a process to verify Click2Mail sales transaction data for completeness and accuracy; obtaining web traffic data to verify Click2Mail revenue sharing; developing a process to address alliance partner concerns within mutually agreed timeframes; and communicating goals and developing a process to measure agreement performance. In addition, the report recommended establishing a central repository for all revenue share documentation; and developing and disseminating detailed procedures for creating, designing, and monitoring agreements. Management agreed with five of the six recommendations, but disagreed with the monetary impact.

Report Title	Report Number	Final Report Date	Monetary Impact
Strategic Approaches to Revenue Protection	MS-AR-11-007	9/30/2011	None

Report Results: Postal Service officials collaborate and communicate regularly with internal and external stakeholders and there are a wide variety of program groups that address revenue-protection issues and strategies. The Postal Service continues to address revenue protection through technological initiatives as well as checklists, quick service guides, and training for clerks. However, revenue leakage will continue to occur until automated verification procedures that use mail processing equipment and Intelligent Mail (IM) technologies replace current manual processes. The report recommended management work with a broadened group of internal and external stakeholders to prepare for streamlining the entry of business mail, accelerate the timeline for streamlined acceptance and verification, and seek to leverage technology to provide revenue protection for Basic Service IM and non-automated volumes. Management partially agreed with the recommendations and disagreed with the monetary impact.

Appendix B: Monetary and Other Impacts

Monetary Impacts

Recommendations	Impact Category	Amount (in millions)
1 and 2	Revenue Loss[20]	$108,513,828
1 and 2	Revenue Loss	153,905,747
Total		**$262,419,575**

The Postal Service samples mail for weight, revenue, and additional characteristics and uses statistical programs data for product and service specific information. According to ODIS-RPW data, shortpaid postage for PC Postage parcels was [redacted] million and [redacted] million ([redacted] million total) in FYs 2011 and 2012, respectively. Based on a 20.9 percent growth rate for PC Postage, we project shortpaid postage of [redacted] and [redacted] million ([redacted] million total) for FYs 2013 and 2014 respectively.

Other Impacts

Recommendation	Impact Category	Amount
3	Revenue at Risk[21]	$1,569,550,567

Total revenue from eVS mailings was about $1.6 billion during FY 2012. About 67 percent of eVS mailings are accepted at DDUs and 33 percent of eVS mailings are accepted at origin facilities, NDCs and SCFs. However, only 26 percent of the samples to determine insufficient postage were drawn at DDUs, while the remaining 74 percent of the samples were drawn at the other entry points. Due to these inconsistent sampling practices, parcels accepted at DDUs have a lower probability of being selected than parcels accepted at other locations. Therefore, the Postal Service's method for projecting shortpaid eVS mailings is not statistically valid because it does not account for these two separate sampling practices when the final projections are made. We believe the Postal Service should adjust its projection methodology to account for the use of the two sampling practices in order to accurately project and assess revenue deficiencies. Therefore, we consider the revenue from eVS mailings to be at risk.

[20] Amount Postal Service is (or was) entitled to receive but was underpaid or not realized because policies, procedures, agreements, requirements, or good business practices were lacking or not followed. May be recoverable or unrecoverable. May apply to historical events or a future period (in the sense perceived future losses may be prevented by the implementation of a recommendation).
[21] Revenue that was not properly protected against loss or miscalculation.

Appendix C: Management's Comments

[redacted]

[redacted]