



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Shortpaid PC Postage Parcels

Audit Report

Report Number
MS-AR-17-007

May 9, 2017

INSUFFICIENT POSTAGE





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

The Postal Service recorded PC Postage revenues of about \$ [REDACTED] billion in FY 2016.

Background

PC Postage is a service offered by the U.S. Postal Service that allows customers to print U.S. postage stamps with their own printers. Customers access PC Postage through USPS.com or PC Postage vendors licensed by the Postal Service. The Postal Service recorded PC Postage revenues of about \$ [REDACTED] billion in fiscal year (FY) 2016.

PC Postage customers establish an account – either on USPS.com or with an authorized PC Postage provider – and compute and print postage through the Internet using a computer and printer. PC Postage parcels are entered into the Postal Service mailstream via collection boxes, carrier pickup, and counters at Postal Service retail units.

In September 2013, we reported that the Postal Service's internal controls for PC Postage parcels were inadequate and the Postal Service estimated \$ [REDACTED] million in shortpaid postage (postage that was either underpaid or not paid). We recommended corrective interim controls and automated systems. The Postal Service disagreed and instead decided to review its automated verification capabilities.

The Postal Service is currently developing an automated verification solution known as the Automated Package Verification (APV) system. APV would use data collected from mail processing equipment to automate identification and recovery of shortpaid PC Postage parcels. APV has a projected

cost of almost \$ [REDACTED] million, and is expected to evaluate almost [REDACTED] percent of all PC Postage parcels for accurate postage. It was to be implemented in January 2017, but has been delayed to August 2017.

Our objective was to evaluate Postal Service controls to identify and collect shortpaid postage on PC Postage parcels.

What the OIG Found

The Postal Service has implemented limited controls for identifying and collecting shortpaid PC Postage parcels since our September 2013 audit. Such efforts have included information sharing between the Postal Service and the PC Postage providers and manual assessments by the Postal Service. These efforts, however, have had very minor impact, as estimated shortpaid postage for these parcels has grown to \$ [REDACTED] million in FY 2016.

The Postal Service expects APV to adequately address the risks associated with shortpaid PC postage. However, this system, which was originally scheduled to be implemented in January 2017, has now been delayed until August 2017. Although notable progress has been made in regard to some equipment development and systems integration, we believe APV implementation continues to be at risk for additional delays and issues including:



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- Equipment — delays have occurred in scanner and scale deployment, testing, and calibration. For example, the equipment designed to evaluate oversized parcels will not be installed until the end of April 2017.
- Software — scope of systems testing has been limited, software issues remain, and collection and payment systems are incomplete.
- Customer Service Center — staffing, training, and process development for the customer service center are all behind schedule, which exacerbates PC Postage mailers' concerns about key program aspects such as the dispute processes.

While we recognize the current challenges, we believe management should consider establishing additional interim controls while APV is being developed and deployed. These controls include leveraging resources, available data, and technologies, such as:

- Expand Postal Service Revenue Assurance efforts to identify and collect shortpaid postage by leveraging existing data systems.

- Leverage data and Passive Adaptive Scanning System technology to help identify and sample suspected shortpaid packages at delivery units.

These interim controls would help identify shortpaid postage and provide an enhanced deterrent until APV is implemented. Also, once APV is implemented, these controls could be refocused on the [REDACTED] percent of PC Postage parcels that would not be tested using APV.

What the OIG Recommended

We recommended management establish additional controls for identifying and collecting shortpaid postage on PC Postage parcels, such as leveraging resources, data, and technologies, until APV is implemented, and develop a strategy for refocusing the shortpaid controls to the segment of PC Postage parcels that will not be tested by APV once it is implemented.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 9, 2017

MEMORANDUM FOR: PRITHA MEHRA
VICE PRESIDENT, MAIL ENTRY & PAYMENT
TECHNOLOGY

E-Signed by Janet Sorensen
VERIFY authenticity with eSign Desktop


FROM: Janet M. Sorensen
Deputy Assistant Inspector General
for Retail, Delivery and Marketing

SUBJECT: Audit Report – Shortpaid PC Postage Parcels
(Report Number MS-AR-17-007)

This report presents the results of our audit of Shortpaid PC Postage Parcels (Project Number 16RG014MS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Joe Wolski, Director, Retail, Marketing and International, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Findings

PC Postage is a service offered by the Postal Service that allows consumers to print U.S. postage stamps with their own printers.

Introduction

This report presents the results of our self-initiated audit of Shortpaid PC Postage Parcels (Project Number 16RG014MS000). Our objective was to evaluate U.S. Postal Service controls to identify and collect shortpaid postage on PC Postage parcels. See [Appendix A](#) for additional information about this audit.

PC Postage is a service offered by the Postal Service that allows consumers to print U.S. postage stamps with their own printers. Customers access PC Postage through USPS.com or PC Postage vendors licensed by the Postal Service. PC Postage customers establish an account – either on USPS.com or with an authorized PC Postage provider – and compute and print postage through the Internet using a computer and printer. PC Postage parcels are entered into the Postal Service mailstream via collection boxes, carrier pickup, and counters at Postal Service retail units. The Postal Service recorded PC Postage revenues of about \$ [REDACTED] billion in fiscal year (FY) 2016.

Various Postal Service groups manually assess and verify that PC Postage users are paying the correct postage for their parcels. When the postage is either underpaid or not paid — “shortpaid” — the package is returned to the sender for payment or additional postage due is collected from the recipient. This task can be challenging as PC Postage parcels do not display the postage amount paid.

The Mailing Entry and Payment Technology (MEPT) group is primarily responsible for the controls and policies for assessing and verifying PC Postage parcel revenues. The Revenue Assurance (RA) group at Postal Service Headquarters conducts limited reviews of customers with insufficiently paid PC Postage.

In September 2013 we reported that the Postal Service’s internal controls for PC Postage parcels were inadequate¹ and Postal Service estimated \$ [REDACTED] million in shortpaid postage.² We recommended corrective interim controls and automated systems. The Postal Service disagreed and instead decided to review its automated verification capabilities as a means of improving revenue assurance for shortpaid parcels. When performing this review, MEPT staff subsequently identified key root causes of shortpaid PC Postage (see Table 1).

Table 1. Causes of Shortpaid PC Postage Parcels

Root Cause and Explanation	Shortpaid Percentage
<i>Weight</i> - Claimed weight by mailer does not match actual weight.	[REDACTED]
<i>Packaging</i> - Packaging used by mailer and postage paid do not match actual package rate (i.e., flat rate paid and non-flat rate box used).	[REDACTED]
<i>Dimensions</i> - Dimensional rate ^a pricing not claimed by mailer.	[REDACTED]
<i>Zone</i> - Claimed zone does not match actual.	[REDACTED]

Source: Postal Service decision analysis report (DAR), *Package Revenue Assurance DRIVE 46*, dated March 2015.

^a A pricing concept such as the balloon price that considers both the weight of a parcel and its size (i.e., cubic volume as determined by its length, height, and width). Such pricing provides a consistent way to charge for the cubic space that a light parcel and a heavy parcel occupy on a truck, plane, or ship.

¹ *Electronic Parcel Payment System Internal Controls Requirements* (Report Number MS-AR-13-012, dated September 27, 2013).

² Postal Service Decision Analysis Report (DAR), *Package Revenue Assurance DRIVE 46*, dated March 2015.

The Postal Service is currently developing an automated verification solution known as the Automated Package Verification (APV) system. APV would use data collected from mail processing equipment (MPE) to automate identification and recovery of shortpaid PC Postage parcels. APV has a projected cost of almost \$■ million, and is expected to evaluate almost ■ percent of all PC Postage parcels for accurate postage. It was to be implemented in January 2017, but has been delayed to August 2017.

Summary

The Postal Service has implemented limited controls for identifying and collecting shortpaid PC Postage parcels since our September 2013 audit. Such efforts have included information sharing between the Postal Service and the PC Postage providers and manual assessments by the Postal Service. These efforts, however, have had very minor impact, as estimated shortpaid postage for these parcels has grown to \$235 million³ in FY 2016.

The Postal Service expects APV to adequately address the risks associated with shortpaid PC postage. However, this system, which was originally scheduled to be implemented on January 2017, has now been delayed until August 2017. Although notable progress has been made in regard to some equipment development and systems integration, we believe APV implementation continues to be at risk from delays and issues including:

- Equipment — delays have occurred in scanner and scale deployment, testing, and calibration. For example, the equipment designed to evaluate oversized parcels will not be installed until April 2017.
- Software — scope of systems testing has been limited, software issues remain, and collection and payment systems are incomplete.
- Customer Service Center — staffing, training, and process development for the customer service center are all behind schedule, which exacerbates PC Postage mailers' concerns about key program aspects such as the dispute processes.



EQUIPMENT



SOFTWARE



CUSTOMER SERVICE CENTER

³ We recognize the volume of PC Postage parcels is increasing, thus increasing shortpaid postage.

The Postal Service has implemented limited controls for identifying and collecting shortpaid PC Postage parcels since our September 2013 audit.

While we recognize the current challenges, we believe the management should consider establishing additional interim controls while APV is being developed and deployed. These controls include leveraging resources, available data, and technologies, such as:

- Expand the Postal Service RA group’s effort to identify and collect shortpaid postage by leveraging existing data from Origin Destination Information System Revenue, Piece, and Weight (ODIS-RPW) and the Transactional Record Processor (TRP).
- Leverage ODIS-RPW and TRP data and Passive Adaptive Scanning System (PASS)⁴ technology to help identify and sample suspected shortpaid packages at delivery units.

These interim controls would help identify shortpaid postage and provide an enhanced deterrent until APV is implemented. Also, once APV is implemented, these controls could be refocused on the [REDACTED] percent of PC Postage parcels that would not be tested using APV.

PC Postage Shortpaid Controls

The Postal Service has implemented limited controls for identifying and collecting shortpaid PC Postage parcels since our September 2013 audit. Such efforts have included information sharing between the Postal Service and the PC Postage providers and manual assessments by the Postal Service. Specifically:

- **PC Providers information sharing.** Since FY 2014, the Postal Service has shared monthly “dashboard” data with PC Postage providers that identifies their top 20 shortpaid mailers. The dashboard also contains details of shortpaid mailings including [REDACTED]. While the providers have shared this information with some of their mailers and successfully reduced shortpaid for these mailers, it has had minimal impact in reducing overall shortpaid.
- **Revenue Assurance Group.** The RA group was created in FY 2016 to identify revenue deficiencies and deter future shortpaid postage. However, while all of the RA group’s 27-person staff duties involve identifying revenue deficiencies, not all [REDACTED] received from the U.S. Postal Inspection Service were for suspected shortpaid PC Postage. The RA group follows up on leads by issuing warning letters to mailers and monitoring for subsequent shortpaid instances. In cases where mailers continue to shortpay postage, the RA group conducts sampling, and based upon sampling results, may issue a demand letter for payment of estimated twelve-month shortpaid postage. The RA group identified [REDACTED] million of shortpaid PC Postage during FY 2016.

Collectively, the Postal Service recouped [REDACTED] million in postage due revenue in FY 2016 — about 9 percent of the estimated \$[REDACTED] million in shortpaid revenue loss in that time. So, while these efforts are positive steps, they have done little to deter or detect the majority of the shortpaid PC postage since 2014. These deficiencies continue to put Postal Service PC Postage revenue at risk. We estimate the Postal Service will incur shortpaid revenue of nearly [REDACTED] million between October 2014 – July 2017 (see [Table 2](#)).

4 [REDACTED]

The Postal Service expects APV to adequately address the risks associated with shortpaid PC postage, and has made notable progress in regards to key supporting infrastructure such as equipment development and systems integration.

Table 2. PC Postage Shortpaid Revenue

Time Period	Shortpaid Revenues
October 2014 – September 2015	██████████
October 2015 – September 2016	██████████
October 2016 – July 2017 (Projected)	██████████
Total	██████████

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

^a Revenue Loss – Amount the 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. It may be recoverable or unrecoverable.

^b Funds put to Better Use - Funds that could be used more efficiently by implementing recommended actions.

Planned Controls - Automated Package Verification

The Postal Service expects APV to adequately address the risks associated with shortpaid PC postage, and has made notable progress in regards to key supporting infrastructure such as equipment development and systems integration. For example, MEPT has conducted extensive integration and acceptance tests to validate proper postage payment. APV is now capable of identifying suspect packages, and data for more than ██████████ packages has been shared with providers.

APV implementation, however, recently was delayed until August 2017 and we believe implementation continues to be at risk from delays and issues including:

- **Equipment.** APV verification will rely on new and upgraded equipment such as scales and scanners. The upgrades and new equipment will capture package characteristics necessary for shortpaid identification including weight, dimension, zone, and packaging. Various scale tests have been conducted including:
 - Scale accuracy test that included 25 ██████████ machines, at 16 sites, with about 52,000 mail pieces.
 - Scale installation check at 11 ██████████ machines with 52 individual scales at six sites.
 - Consistency testing of about 1,200 samples were conducted on the ██████████ machines at two facilities.
 - ██████████ tests to identify flat rate and Information Based Indicia (IBI) barcodes.

While some key equipment is on schedule, there have been delays in ██████████ deployment, testing, and calibration (see [Table 3](#)). For example, ██████████ scales were originally scheduled to be installed by September 2016, but were not finished until November 2016 and could not be monitored remotely as of February 2017. Furthermore, new equipment for assessing packages that exceed size limits — the ██████████ — will not be installed and tested until April 2017. Further, the ██████████ machine scales have not been activated, tested for accuracy, and had ██████████ detection software installed.

Table 3. Key APV Equipment Deployment Status

Equipment	Required Number of Upgrades/New Equipment	Original Scheduled Milestone	Date Completed or Scheduled for Completion
[REDACTED]	214	November 2016	January 2017
[REDACTED]	74	September 2016	November 2016
[REDACTED]	33	March 2016	May 2016
[REDACTED]	150	September 2016	April 2017

Source: Postal Service APV Standard Operating Procedures and Engineering Department data.

The Postal Service attributes these delays to procurement, design, and installation issues. For example, installation of the scales was delayed because the manufacture did not deliver them on time and the scale installation methodology changed.

- **Software.** Software development and integration is another key component of APV. While the Postal Service has made progress developing and integrating software across various systems, key challenges remain as shown in Table 4.

Table 4. Software Challenges

Software Platforms & Considerations	Function	Challenge
[REDACTED]	[REDACTED]	[REDACTED]

5 Negotiated Service Agreements (NSA) are customized and mutually beneficial contractual agreements between the Postal Service and specific mailers (customers or organizations). NSAs provide for customized pricing and classifications under specified terms and conditions and may include modifications to current mailing standards and other postal requirements.

Software Platforms & Considerations

	Function	Challenge
[REDACTED]	[REDACTED]	[REDACTED]

Source: OIG analysis of Postal Service data and APV Standard Operating Procedures.

The Postal Service attributes these delays to overall complexities associated with a system integration of this type. Upgrading, integrating, and testing multiple systems will be critical to the Postal Service and PC Postage stakeholders to ensure data is accurate and timely.

- **Customer Service Center.** The Postal Service is developing an independent and dedicated customer service center to address customer disputes over shortpaid assessments above a [REDACTED] threshold and other shortpaid PC postage questions. Staffing, training, and process development are all behind schedule, which exacerbates PC Postage mailers' concerns about key program aspects such as the dispute process. For example, call center staff, originally slated to be on board by April 2016, have not been hired. Table 5 lists specific customer service center issues.

Table 5. Customer Service Center Challenges

Tasks	Challenges
Staffing	The initial goal was to hire 10 support staff members by April 2016. The target was moved to January 2017 with an additional 10 to be hired by the end of FY 2017.
Training	Staff training programs have not been fully developed.

Tasks

Challenges

Process Development

- *Automated Response*: The voice response system, which will allow customer phone inquiries to be directed to appropriate customer care staff, has been postponed due to cost.
- *Dispute Process*: The multi-tiered approach to dispute resolution business rules has not been developed.
- *PC Provider Roles*: They remain unclear based on providers' responses to a Postal Service proposed rule on APV. Specific concerns included:
 - Providers' liability for customer mistakes.
 - Disputes directed to the Postal Service and not providers.
 - Technical requirements.
 - Processing dispute decisions and overpayments.

Source: OIG analysis of Postal Service data and review of comments in response to *Federal Register Notice, Revisions to the Requirements for Authority To Manufacture and Distribute Postage Evidencing Systems*, November 6, 2016.

The Postal Service attributes these customer service center delays to problems in completion of equipment and software segments. Effectively implementing this center will be crucial to ensuring mailer confidence in APV, particularly as PC Postage customers have other options for mailing their parcels.

While we recognize the current challenges, we believe the Postal Service should consider establishing additional interim controls while APV is being developed and deployed. These controls could include leveraging resources, available data, and technologies, such as:

- Expand Postal Service RA efforts to identify and collect shortpaid postage by leveraging existing data, such as that from ODIS-RPW, which collects and develops data on mail volume, class, product, and other mail characteristics, or TRP, which identifies suspect packages.
- Leverage data and technology to enhance sampling at delivery units. For example, data from ODIS-RPW and TRP to identify suspected shortpaid packages could be used in conjunction with PASS—PASS⁶ would then alert delivery unit clerks to sample packages and verify postage. The Postal Service is currently developing a similar initiative for parcel returns, called Scan, Weigh, and Pay.⁷

These interim controls would help identify shortpaid postage and provide an enhanced deterrent until APV is implemented. Also, once APV is implemented, these controls could be refocused on the 17 percent of PC Postage parcels that would not be tested using APV.

⁶ There are 4,100 [REDACTED] machines located nationwide.

⁷ [REDACTED] will use [REDACTED] equipment to flag certain parcels that have not been processed by mail processing equipment for manual verification.

Recommendations

We recommend management establish additional controls for identifying and collecting shortpaid postage on PC Postage parcels, and develop a strategy for refocusing the shortpaid controls to the segment of PC Postage parcels that will not be tested by APV once it is implemented.

We recommend the vice president, Mail Entry Payment Technology:

1. Establish additional controls for identifying and collecting shortpaid postage on PC Postage parcels, such as leveraging resources, data, and technologies, until the Automated Package Verification system is implemented.
2. Develop a strategy for refocusing the shortpaid controls to the segment of PC Postage parcels that will not be tested by the Automated Package Verification system once it is implemented.

Management's Comments

Management disagreed with the overall tone of the report, statements, recommendations, and monetary impact.

Regarding the overall tone of the report, management stated no credit was given to APV implementation advances, and that this portrays the Postal Service in an unfair light. Management also stated that the OIG was well aware of the timeline the Postal Service originally established in 2013 to implement the systems, but rather than wait until such systems have been implemented, chose to audit a process under construction.

Management also disagreed with the following OIG statements:

- "...shortpaid postage for these parcels has grown to ██████ M in FY16." Management stated shortpaid is better represented as a percent of total revenue so as to not be biased by the growth in parcels. Management stated that the percent of shortpaid has reduced from ██████ percent of all PC Postage revenue in Q1, FY 2016, to ██████ percent in Q1, FY 2017.
- "APV implementation continues to be at risk for additional delays and issues including: Equipment-delays have occurred in scanner and scale deployment, testing, and calibration...". Management acknowledged that equipment delays occurred, but that 100 percent of ██████ scales are now installed. Management also stated the remaining equipment to be installed is on track to be completed prior to implementation and is no longer a risk or barrier to program success.
- "APV implementation continues to be at risk for additional delays and issues including: Software-scope of systems testing has been limited, software issues remain, and collection and payment systems are incomplete." Management stated each system has gone through extensive testing, and all results have passed. Management also stated that after each release, any gaps were addressed.
- "APV implementation continues to be at risk for additional delays and issues including: Customer Service Center-staffing, training, and process development for the customer service center are all behind schedule." Management stated the Customer Service Center has two full-time employees to handle the remaining onboarding and training of the full center, and the remaining staffing will begin shortly before the system goes live.

Regarding recommendation 1, management disagreed stating they are utilizing a multi-pronged approach to lowering PC Postage shortpaid now through system implementation. First, MEPT is supplying data to the Revenue Assurance group to provide guidance on accounts with significant shortpaid. Second, MEPT is providing data to PC Postage vendors to contact their end customers to enable notification-based deterrence. Management also stated protocols are in place for revenue assurance through the retail units, and that current postage due processes remain in place. Management stated that attempts to establish additional controls

prior to implementation will only further delay this program and may cause confusion with the industry partners and customers. Management also stated that PASS lacks the needed capabilities to integrate with the shortpaid system.

Regarding recommendation 2, management disagreed stating they have a strategy to conduct a cost benefit analysis study following program go live. This study will determine if additional measures are necessary to capture revenue from pieces missed by APV. Management also stated they will determine if the level of deterrence is not sufficient and, if so, determine a cost-effective approach.

Regarding the monetary impact, management disagreed with the designation of FY 2017 shortpaid projections of PC postage parcel shortpaid as “Funds Put to Better Use”, instead believing this should be referred to as OIG shortpaid projections. Management also disagreed with the FY 2017 projection of what total shortpaid will be before system implementation, stating that it should be [REDACTED] million rather than [REDACTED] million.

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

Evaluation of Management’s Comments

The OIG considers management’s comments non-responsive to recommendation 1, but responsive to recommendation 2. The corresponding corrective action should resolve the issue identified in the report.

Regarding recommendation 1, we recognized the Postal Service’s revenue protection efforts, including sharing data with the Revenue Assurance group and PC Postage providers. We continue to believe, however, that additional controls would be beneficial in reducing shortpaid postage until APV is implemented as these efforts have had a very minor impact. We view the disagreement with recommendation 1 as unresolved and do not plan to pursue it through the formal audit resolution process. We will close this recommendation as not implemented with the issuance of this report.

Regarding recommendation 2, management stated their strategy was to conduct a cost-benefit analysis on the segment of PC Postage parcels that will not be tested by APV after implementation. In subsequent correspondence, management stated they will complete the cost benefit analysis and make a decision on expanding procedures within 1 year of the launch of APV. This strategy meets the intent of our recommendation. We will consider August 31, 2018, the target implementation date for recommendation 2.

Regarding management’s comment about the overall tone of the report, we specifically recognized the interim efforts and the notable progress in implementing key aspects of APV. Furthermore, regarding the timing of our report, we believe that it was appropriate considering APV’s original January 2017 implementation date.

Regarding management’s disagreement with various report statements, see our response to those comments below.

- “...shortpaid postage for these parcels has grown to \$ [REDACTED] M in FY16.” We acknowledge the Postal Service’s position that shortpaid PC postage as a percentage of revenue declined in quarter 1, FY 2017, but we were unable to validate a longer term trend due to insufficient data for 2017.
- “APV implementation continues to be at risk for additional delays and issues including: Equipment-delays have occurred in scanner and scale deployment, testing, and calibration...”. Our evidence showed equipment delays, and considering there are [REDACTED], [REDACTED].

- *“APV implementation continues to be at risk for additional delays and issues including: Software-scope of systems testing has been limited, software issues remain, and collection and payment systems are incomplete.”* Our evidence showed software issues, and considering there is still incomplete end-to-end system tests and provider software, we feel that highlighting software as a risk area continues to be warranted.
- *“APV implementation continues to be at risk for additional delays and issues including: Customer Service Center-staffing, training, and process development for the customer service center are all behind schedule.”* Our evidence showed key aspects of the Customer Service Center were behind schedule, and considering that additional hiring is still needed, highlighting the Customer Service Center as a risk area continues to be warranted.

Regarding management’s disagreement with the FY 2017 monetary impact, we believe the “Funds Put to Better Use” designation is correctly applied and the methodology supporting the █████ million estimate is appropriate. We used Postal Service shortpaid postage projections from FY 2016 January through July and FY 2017 October through December as the basis for our FY 2017 monetary impact. The Postal Service did not provide FY 2017 quarter 2 shortpaid postage for us to review to support their assertion that shortpaid postage is declining.

Recommendation 2 requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. The recommendation should not be closed in the Postal Service’s follow up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendices

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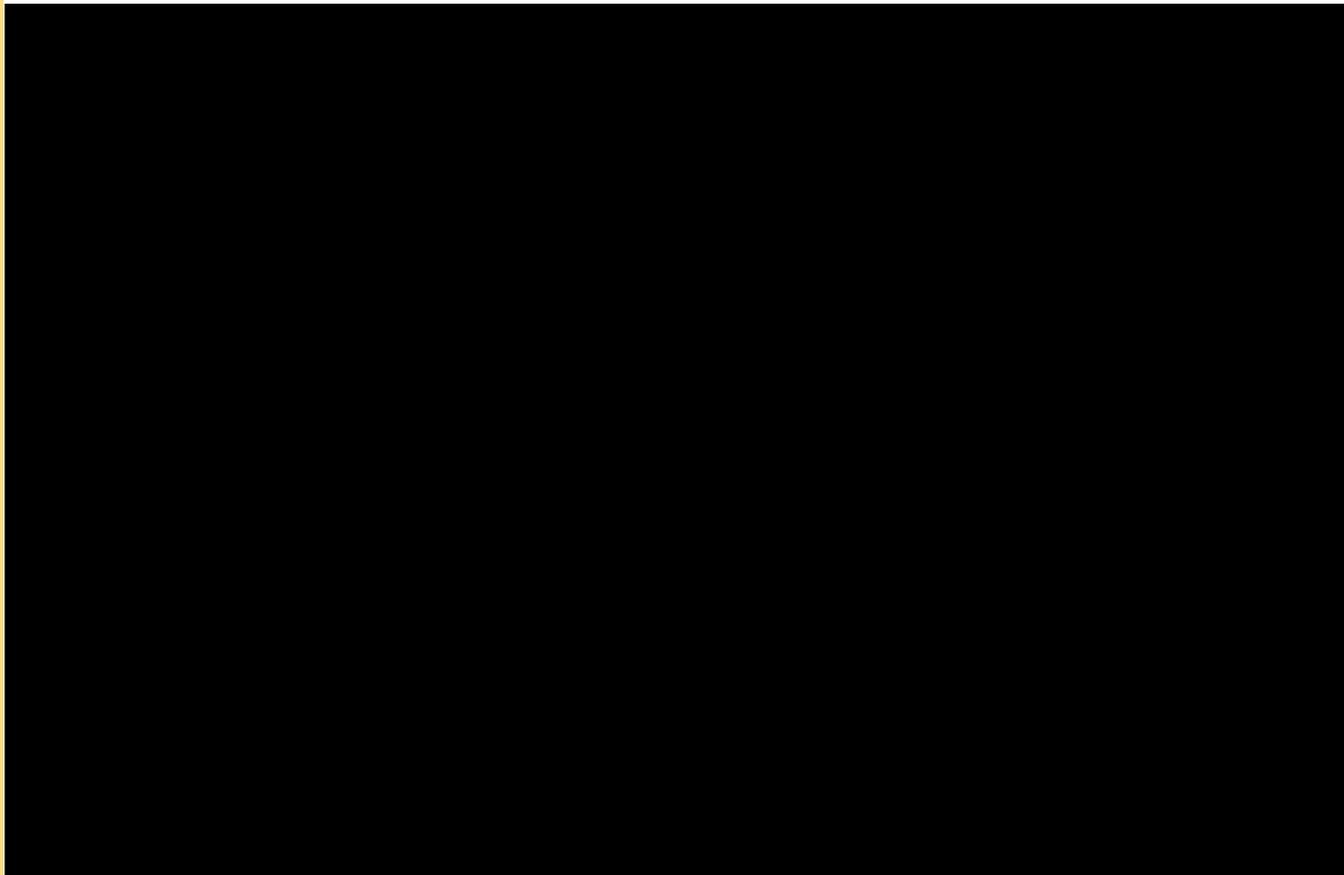
Appendix A: Additional Information

Background

The Postal Service's MEPT group is primarily responsible for the controls and policies for assessing and verifying PC Postage parcel revenue. The Postal Service established an organization initiative in FY 2014 titled *Delivering Results, Innovation, Value and Efficiency (DRIVE) 46 – Revenue Assurance*⁸ with a goal to reduce shortpaid parcels and collection of shortpaid revenues by 100 percent where economically feasible. A DAR was funded with [REDACTED] million to evaluate and identify shortpaid PC postage parcel root causes and develop an automated solution. The DAR led to the APV system, which will use data collected from mail processing equipment to automate identification and collection of shortpaid PC Postage parcel revenue.

APV will require integration of multiple data systems such as the TRP, eSAS, and UPE to capture mailpiece characteristics; identify shortpaid revenue; recover shortpaid revenue (and refund overpaid postage); provide customer care; and generate necessary reports. APV will also transmit data to PC Postage providers (see Figure 1).

Figure 1. Software Development and Integration



Source: Postal Service manager's training deck.

The Postal Service submitted a *Federal Register* notice in April 2015 announcing a proposed rule to revise requirements for authority to manufacture and distribute postage evidencing systems and reflect new revenue assurance practices. The Postal Service published a final rule in July 2015 (80 FR 42392). The Postal Service proposed to revise the rule in February and September 2016. It intends to implement the APV system beginning in the fourth quarter of FY 2017.

⁸ This initiative has been renamed *Accelerate Innovation to Maximize Business Value* (51).

Objective, Scope, and Methodology

Our objective was to evaluate Postal Service controls to identify and collect shortpaid postage on PC Postage parcels. To accomplish our objective, we:

- Reviewed Postal Service PC Postage parcel revenue criteria, mission statements, policies and procedures, and other supporting documents.
- Reviewed the APV system DAR and other APV-related information including standard operating procedures, *Federal Register* notices, industry comments to proposed revenue assurance revisions, equipment and software testing reports, and training material.
- Collected and analyzed OIG Revenue Generation and Assurance risk model data on revenue assurance shortpaid, including volume and revenue by mail shape, payment method, overpaid, and shortpaid amounts from FY 2013 through FY 2016.
- Collected and reviewed Postal Service PC Postage parcel shortpaid methodology, data, and projections from FY 2015 through FY 2017, quarter 1.
- Interviewed Postal Service managers and headquarters officials on shortpaid revenue strategies and challenges.
- Interviewed external PC Postage provider stakeholders to collect their views on the Postal Service's revenue assurance strategies.
- Reviewed and analyzed prior OIG reports.
- Researched literature on mailers' use of PC Postage, including specific postings of discussions of how to cheat the Postal Service when shipping packages.
- Reviewed Universal Postal Union documents to identify best practices for revenue protection.

We conducted this performance audit from March 2016 through May 2017 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 finding and conclusion based on our audit objective. We discussed our observations and conclusions with management on March 13, 2017, and included their comments where appropriate.

We assessed the reliability of computer-generated data from the Postal Service's ODIS-RPW system by reviewing the data and interviewing Postal Service officials and external stakeholders. We determined that the data were sufficient reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Passive Adaptive Scanning System Functionality and Labor Savings</i>	Our objective was to evaluate the functionality and associated labor savings for PASS.	MI-AR-15-007	9/1/2015	None
<i>Revenue Protection Rules</i>	Our objective was to evaluate Postal Service rules related to revenue protection and to determine if there are opportunities for improvement.	MS-MA-15-001	10/3/2014	None
<i>Electronic Parcel Payment Systems Internal Control Requirements</i>	Our objective was to evaluate the internal control requirements for electronic parcel payment systems, including PC Postage and eVS.	MS-AR-13-012	9/27/2013	\$262

Appendix B: Management's Comments

April 17, 2017

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Shortpaid PC Postage Parcels (Report Number [MS-AR-17-DRAFT])

Management disagrees with the overall tone of this report. Significant advances have been made in the implementation of the systems required to collect shortpaid PC postage parcels. USPS is building a state of the art system using big data to analyze and assess postage automatically; as such, this process is complex. No credit has been given in the report to these advances and management believes this portrays the Postal Service in an unfair light. The OIG was well aware of the timeline the Postal Service originally established in 2013 to implement this systems, but rather than wait until such systems have been implemented, chose to audit a process under construction. Specifically, management also disagrees with the following statements in the report.

Management disagrees with the following OIG statement, "...shortpaid postage for these parcels has grown to \$ [REDACTED] M in FY16." Shortpaid is better represented as a percent of total revenue so as to not be biased by the growth in parcel usage over the time period in question. The percent of shortpaid has reduced from [REDACTED] % of all PC Postage revenue in Q1 FY16 to [REDACTED] % in Q1 FY17. The ultimate goal of this program is not tracking and collecting shortpaid but rather ensuring proper postage is paid correctly the first time.

Management disagrees with the statement, "APV implementation continues to be at risk for additional delays and issues including: Equipment—delays have occurred in scanner and scale deployment, testing, and calibration..." While Management acknowledges equipment delays have occurred, 100% of [REDACTED] scales are now installed. The remaining equipment to be installed are on track to be completed prior to collection go live and are no longer a risk or barrier to program success.

Management disagrees with the statement, "APV implementation continues to be at risk for additional delays and issues including: Software—scope of systems testing has been limited, software issues remain, and collection and payment systems are incomplete." Each system involved has gone through extensive Systems Integration Testing and Customer Acceptance Testing, including [REDACTED] and all results have passed. After each release, any gaps identified in the program have been addressed in additional features and programmatic changes.

Management disagrees with the statement "APV implementation continues to be at risk for additional delays and issues including: Customer Service Center—staffing, training, and process development for the customer service center are all behind

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schedule." The Customer Service Center has 2 full time employees to handle the remaining onboarding and training of the full center. The remaining staff onboard date has always been tied to the collection go live date, and as such program will begin staffing shortly before the system goes live.

The interim control suggested by OIG to "Expand Postal Service Revenue Assurance efforts to identify and collect shortpaid postage by leveraging existing data systems" is already being accomplished. Management is using both ODIS data and live mail suspect data from Transaction Record Processor to better inform the retail group, the Revenue Assurance group, and PC Postage vendors. This communication/notification period is being performed very deliberately to give customers ample notice as OIG points out "PC postage customers have other options for mailing their parcels." This is expected to drive behavior changes in PC Postage customers to further reduce shortpaid.

Management additionally disagrees with the designation of FY17 shortpaid projections of PC Postage parcel shortpaid as "Funds Put to Better Use" in the Management believes this is more accurately referred to as OIG shortpaid projections.

Management disagrees with the OIG's FY17 projection of what total shortpaid will be before program go-live date of \$█M. Management has provided FY17 numbers showing \$█M projected shortpaid as the OIG ignored the fact that shortpaid is trending downward throughout the year.

Management Response to OIG RECOMMENDATIONS

Recommendation 1:

Establish additional controls for identifying and collecting shortpaid postage on PC Postage parcels, such as leveraging resources, data, and technologies, until the Automated Package Verification system is implemented.

Management Response/Action Plan:

Management disagrees with Recommendation 1.

Management is currently utilizing a multipronged approach to lowering shortpaid on PC Postage Parcels from now through system implementation. First, MEPT is supplying data, both ODIS and live suspects, to the USPS Revenue Assurance group to provide guidance on accounts identified with significant shortpaid. Second, MEPT is providing data collected by the Automated Package Verification system to PC Postage vendors to contact their end customers to enable notification based deterrence until collection go-live. All PC Postage vendors and Click-N-Ship have already begun customer notifications for detected shortpaid instances. Management also recognizes protocols are in place for revenue assurance through the retail units, and USPS's current postage due process is still in place. These efforts will help mitigate the shortpaid problem until collection go live.

As this program is now less than 4 months from collection go live, attempts to establish additional controls prior to collection go-live will only further delay this program. This may also cause confusion with our industry partners and customers, further impacting any potential monetary returns. Specifically, OIG recommends utilizing Passive Adaptive Sorting System systems at delivery units but does not recognize that these systems lack the needed capabilities and would require substantial development work to integrate with the shortpaid system.

Recommendation 2:

Develop a strategy for refocusing the shortpaid controls to the segment of PC Postage parcels that will not be tested by the Automated Package Verification system once it is implemented.

Management Response/Action Plan:

Management disagrees with Recommendation 2.

Management has a strategy to conduct a cost benefit analysis study following program go live. This study will determine if additional measures are necessary to capture any additional revenue from pieces missed by the current implementation of the system. Management will determine if the level of deterrence is not sufficient and if so determine a cost effective approach.



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