



September 2, 2010

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ACTING MANAGER, MAILING AND SHIPPING SERVICES STRATEGY

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SUBJECT: Management Advisory – Electronic Postmark Program License Fees
(Report Number MS-MA-10-001)

This report presents the results of our self-initiated review of the Electronic Postmark® (EPM) program (Project Number 10RG022MS000). Our objective was to determine whether officials properly collected EPM program license fees. This audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

The EPM is an auditable time-and-date stamp service offered by authorized service providers, under license by the U.S. Postal Service. Customers using a licensed EPM service provider obtain Postal Service-authorized time stamps for the purpose of substantiating, at a later time, that the original form of the electronic information presented for time-stamping has not been altered. EPMs that an authorized service provider issues are stored in their repositories and made available for verification for a period of up to 7 years from the date of issuance. The Postal Service has licensed two service providers since initiating the program in the 1990s: Authentidate Holding Corporation (as of August 1, 2007) and Epostmarks, Inc. (as of July 1, 2009). The license agreements require licensees to pay the Postal Service a quarterly license fee, with additional fees for usage above a specified threshold. The Postal Service indicates on usps.com that it serves as the back-up verifier for all EPMs issued by its licensees.

EPM Program Fees

Postal Service officials did not properly collect EPM program license fees or validate licensees' EPM usage and, therefore, could not confirm that licensees paid the Postal Service all amounts due under the agreements. This occurred because the Postal Service has not developed a process to verify EPM usage without the aid of the licensees. Without a process to independently verify EPM usage, the Postal Service may not collect all usage fees due and serve as a back-up verifier of EPMs. In addition, as of August 1, 2010, Epostmarks, Inc., owed the Postal Service at least \$229,610 in quarterly license fees. The Postal Service risks revenue loss if officials do not collect the past due license fees from Epostmarks, Inc. We consider this \$229,610 of monetary impact recoverable revenue. See [Appendix B](#) for the monetary impact calculation.

Controls Over Licensees' EPM Usage

The licensees did not always submit the required EPM usage reports and, when they did, Postal Service officials did not validate the reported usage amounts. The EPM license agreements require the licensees to pay the Postal Service quarterly license fees, with additional license fees for usage over a specified threshold. The agreements also require licensees to submit monthly usage reports to the Postal Service. While Authentidate Holding Corporation submitted all the required monthly usage reports and provided Postage Technology Management with daily downloads of its EPM log files, Epostmarks, Inc., did not submit any usage reports or provide downloads of its EPM log files. Further, program officials did not reconcile Authentidate's usage reports with payments received. This occurred because the Postal Service did not properly monitor EPM usage. As a result, officials could not confirm whether the licensees paid the Postal Service all amounts due under the agreements.

Postage Technology Management officials indicated that EPM service is designed to protect the privacy rights of the customer. The original file to be time-stamped, such as a Microsoft Word document, is processed on the original customer's computer, resulting in an electronic hash (unique fingerprint), which is then transmitted to the service provider to be processed with an EPM. The end result is a Postal Service-signed receipt (known as the EPM), which is returned to the original customer for safekeeping. The service provider sends a copy of the Postal Service-signed receipt to the Postal Service each evening in the form of an Oracle file of all EPMs generated that day.

However, the Postal Service has not developed a process to ensure that the Oracle files include all signed receipts. We reviewed Authentidate's EPM log files for April 2009 to determine whether we could validate their EPM usage by reconciling the log files to their usage reports. Because the Postal Service has no process to ensure that the Oracle files include all signed receipts, we could not verify the accuracy of the licensees' usage reports without the aid of the licensee.

Management officials stated that the Postal Service chose to capture the daily transaction files from Authentidate, but not to fund development of a front end tool necessary to serve as a back-up verifier of EPMs. Without a process to independently verify EPM usage, the Postal Service may not collect all usage fees due. In addition, since the Postal Service indicates on usps.com that it is the back-up verifier of EPMs issued by its licensees, its inability to perform this function could negatively impact the Postal Service brand.

Quarterly License Fees

As of August 1, 2010, Epostmarks owed the Postal Service at least \$229,610 in quarterly license fees. Management was aware that this licensee has been delinquent since January 1, 2010. In a February 3, 2010, letter management provided Epostmarks a 120-day notice of termination of their license agreement. Management stated they issued the letter because they decided to exercise the “Termination for Convenience” clause in the Epostmarks license agreement.

However, on June 3, 2010, management and Epostmarks agreed to modify the agreement and rescind the termination notice. Management preferred to substantially revise the terms of the license agreement and Epostmarks expressed an interest in that arrangement. Management is currently negotiating with Epostmarks to complete a new license agreement.

Management stated they will not enter into a new agreement with Epostmarks without full payment of past due license fees, noting that the recently signed amendment to the license agreement provides that:

Any outstanding payment obligations under the Agreement, if any, will be incorporated into a new license agreement on mutually agreed upon terms.

If no agreement is reached, management plans to seek payment of past due license fees through all possible channels.

The recently signed amendment to the license agreement provides that outstanding licensee payment obligations will be incorporated in a new agreement; however, we believe management should promptly initiate actions to collect the past due license fees because Epostmarks has missed three consecutive quarterly fee payments dating back to January 2010. The Postal Service risks revenue loss if officials do not collect the past due license fees from Epostmarks. We consider this \$229,610 to be recoverable revenue. See [Appendix B](#) for the monetary impact calculation.

We recommend the acting manager, Mailing and Shipping Services Strategy, direct the manager, Strategic Business Development, to coordinate with the manager, Postage Technology Management, to:

1. Develop a process to monitor and validate licensees’ Electronic Postmark usage.

We recommend the acting manager, Mailing and Shipping Services Strategy, direct the manager, Strategic Business Development, to:

2. Remove information from usps.com that indicates that the Postal Service serves as a back-up verifier for all EPMs issued by its licensees until the Postal Service can perform this function.
3. Initiate actions to collect the past due Electronic Postmark license fees.

Management's Comments

Management agreed with our findings, recommendations, and monetary impact of \$229,610.

In response to recommendation 1, management stated they began developing a system to monitor, store, and validate licensees' EPM and are currently finalizing the technical specifications for the system, which they plan to complete in 60 to 120 days.

In response to recommendation 2, management has removed information from usps.com that indicates the Postal Service serves as a back-up verifier of all EPMs.

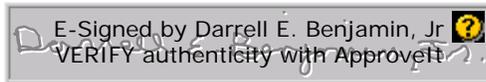
In response to recommendation 3, management stated they have been working with Epostmarks, Inc., to end their current license agreement and upgrade to a new agreement with significantly stronger brand and product controls. Management has informed Epostmarks, Inc., that all past due amounts must be paid before the new license agreement can be signed. Management expects to make a decision regarding renewal of the Epostmarks, Inc., license agreement by September 1, 2010. See [Appendix C](#) for management's comments in their entirety.

Evaluation of Management's Comments

The U. S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to our recommendations, and management's corrective actions should resolve the issues identified in the report.

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

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



Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Revenue and Systems

Attachments

cc: Paul Vogel
Thomas G. Day
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Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

EPM is an auditable time-and-date stamp service offered by authorized service providers, under license by the Postal Service. Customers using an authorized EPM provider obtain Postal Service-authorized time stamps for the purpose of substantiating, at a later time, that the original form of the electronic information presented for time-stamping has not been altered. EPMs are produced by companies approved under a certification process that authorizes them to use Postal Service-licensed technology. An EPM is generated on a secure server that the license provider owns and maintains. The Postal Service then issues a private signing key to each licensee and that key also monitors and records EPM usage.

The Postal Service began exploring a value-added service for digital content files in 1991 and created the “electronic postmark.” By 1995, the Postal Service began testing the concept and provided the service commercially until 2001, when it decided to restructure the service. In 2002 the Postal Service formed a strategic alliance¹ with Authentidate Holding Corporation to provide EPM service.

In late 2006, the Postal Service published a Request for Information to engage the time-date industry in changing the EPM model. Fifteen information technology organizations participated and provided feedback to help the Postal Service determine its role in the time-date industry. In August 2007, the Postal Service changed the postal-supported service to a licensing model that enabled the time-date industry to use the Postal Service’s intellectual property to create a trusted time-date stamp environment. The Postal Service has licensed two service providers since initiating the program in the 1990s: Authentidate Holding Corporation (as of August 1, 2007) and Epostmarks, Inc. (as of July 1, 2009).

The current agreements provide for the licensees to pay the Postal Service a quarterly license fee, with additional fees for usage above a specified threshold. The following table provides EPM revenue information by fiscal year.

Table 1. Revenue for the EPM Program by Fiscal Year			
2007	2008	2009	2010 (year-to-date August 1)
\$135,000	\$300,000	\$450,000	\$175,000 ²

Source: PRC Docket No. MC 2008-1, Filing Identification Number 60110, Accepted 6/9/2008, pages 10-11 (Fiscal Year 2007)
Postal Service’s General Ledger System (Fiscal Years 2008–2010)

¹ A formal relationship between two or more parties to pursue a set of agreed-upon goals or to meet a critical business need while remaining independent.

² This does not include the \$229,610 quarterly license fees that Epostmarks owed the Postal Service as of August 1, 2010.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether officials properly collected EPM program license fees. To accomplish our objective, we:

- Interviewed Strategic Business Development officials to determine how many certified providers the Postal Service has licensed since initiating the program in the 1990s.
- Reviewed copies of the license agreements for each authorized service provider to understand the terms of the agreements, including license fees payable to the Postal Service.
- Analyzed EPM usage reports that each licensee is required to submit to the Postal Service to determine whether any of the licensees used EPMs above the threshold specified in their contracts in order to calculate the applicable usage fees due.
- Interviewed EPM program managers to determine how they monitor and validate licensees' EPM usage.
- Obtained Citibank transaction detail reports for each of the authorized service providers from August 1, 2007, through August 1, 2010. Citibank provides a transaction detail report to the Postal Service each time an authorized service provider makes a license fee payment.
- Obtained and reviewed postings to General Ledger Account Number 440043.108, the EPM revenue account.
- Reconciled license fees payable as outlined in the licensing agreements with the Citibank transaction detail reports and postings to General Ledger Account Number 440043.108, the EPM revenue account, from August 1, 2007, through August 1, 2010.
- Calculated past due license fees payable to the Postal Service by authorized service providers, including the applicable interest owed as prescribed by the licensing agreements.
- Identified and interviewed Postal Service officials responsible for the EPM program to determine why they have not collected all EPM license fees. We also identified actions the Postal Service has taken or plans to take to resolve the issue.

We conducted this review from June through September, 2010, in accordance with the *Quality Standards for Inspections*.³ We relied on data obtained from the Postal Service's general ledger system. We did not directly audit the general ledger system, but reconciled the license fees payable as outlined in the licensing agreements with the Citibank transaction detail reports and postings to General Ledger Account Number 440043, the EPM revenue account, for the period August 1, 2007, through August 1, 2010. We determined the data was sufficiently reliable to address the audit objective and support our findings and conclusions. We discussed our observations and conclusions with management officials on August 9, 2010, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

The OIG has not issued any prior audits or reviews directly related to our objective in the past 5 years.

³ These standards were last promulgated by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) in January 2005. Since then, **The Inspector General Act of 1978 as amended by the IG Reform Act of 2008** created the Council of the Inspectors General on Integrity and Efficiency (CIGIE), which combined the PCIE and ECIE. To date, the Quality Standards for Inspections have not been amended to reflect adoption by the CIGIE and, as a result, still reference the PCIE and ECIE.

APPENDIX B: MONETARY IMPACT

Reconciliation of EPM Quarterly License Fees for Authentidate Holding Corporation					
Due Date	Quarterly License Fees Due	Amount Paid	Quarterly License Fees Past Due	Interest on Past Due Amount⁴	Recoverable Revenue⁵
August 2007	\$50,000	\$50,000	\$0	\$0	\$0
October 2007	75,000	75,000	0	0	0
January 2008	75,000	75,000	0	0	0
April 2008	75,000	75,000	0	0	0
July 2008	75,000	75,000	0	0	0
October 2008	75,000	75,000	0	0	0
January 2009	75,000	75,000	0	0	0
April 2009	75,000	75,000	0	0	0
July 2009	75,000	75,000	0	0	0
October 2009	75,000	75,000	0	0	0
January 2010	75,000	75,000	0	0	0
April 2010	75,000	75,000	0	0	0
July 2010 ⁶	25,000	25,000	0	0	0
SUB-TOTAL	\$900,000	\$900,000	\$0	\$0	\$0
Reconciliation of EPM Quarterly License Fees for Epostmarks, Inc.					
July 2009	\$75,000	\$75,000	\$0	\$0	\$0
October 2009	75,000	75,000	0	0	0
January 2010	75,000	0	75,000	2,688	77,688
April 2010	75,000	0	75,000	1,535	76,535
July 2010	75,000	0	75,000	387	75,387
SUB-TOTAL	\$375,000	\$150,000	\$225,000	\$4,610	\$229,610
TOTAL	\$1,275,000	\$1,050,000	\$225,000	\$4,610	\$229,610

We reconciled quarterly license fees payable to the Postal Service, as outlined in the licensing agreements, with the Citibank transaction detail reports and postings to General Ledger Account Number 440043.108, EPM, for the period August 1, 2007, through August 1, 2010. We then calculated the past due quarterly license fees payable to the Postal Service, including the applicable interest allowed by the licensing agreements, for each authorized service provider.

⁴ Per the licensing agreements, interest is charged daily at an annual rate of 3 percent over the current prime rate (Citibank's or its predecessor's rate as accurately published in the *Wall Street Journal*) or the maximum rate permitted by law. We used a 6.25 percent annual interest rate to compute interest on the past due quarterly license fees (3.25 percent prime rate plus 3 percent overage). The prime rate published in the *Wall Street Journal* has been 3.25 percent over the last year.

⁵ Revenue that can be collected for goods delivered or services rendered.

⁶ The agreement expired at the end of July 2010. As a result, only the license fee for 1 month was due.

APPENDIX C: MANAGEMENT'S COMMENTS



August 30, 2010

LUCINE WILLIS
Director, Audit Operations
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Arlington, VA 22209-2020

SUBJECT: Draft Management Advisory – Electronic Postmark Program License Fees
(Report Number [MS-MA-10]-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. We believe our response will address the concerns raised in the three recommendations.

Recommendation #1:

Develop a process to monitor and validate licensee's Electronic Postmark usage.

Response

Management agrees with this recommendation, and in fact has begun work on this effort prior to the audit. As part of our EPM 2.0 initiative, Management is working to design and implement a system to monitor, store and validate licensee's Electronic Postmark usage.

USPS Business Development will work with Postal Technology Management to develop and implement a system to store and validate usage – current planning suggests the need for 3 (three) System services (i.e. FIPS 140.3 and FIPS 180.2 hardware/software) with PSD (Postal Security Device) Archival/Verification database system for auto receive/store and archival EPM hashes, and for historical EPM hashes validation; and meet audit requirements and security compliance reconciliation of automated transferred Licensee EPM hash data files stored comply with Licensee electronic customers reporting files. The usage of Postal Security Devices on Licensee's systems will allow for an auditable validation of EPM usage. In addition, the Inspection Service is leading an effort with Carnegie Mellon University to set strict certification standards for EPM Licensee systems to ensure they are built to USPS specifications. Product Technology Management and the Inspection service will work to ensure future Licensee systems are set up and running in accordance with these requirements.

Management is still finalizing the technical recommendation, which should be completed in 60-120 days. The required funds will exceed the current EPM program budget, and additional funding will need to be secured in the Fiscal 2011 budget to execute the recommended actions. Management will target January 1, 2011 as the goal for approved funding assuming our request is approved.

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Recommendation #2:

Remove information from usps.com that indicates the Postal Service serves as a back-up verifier of all EPM

Response

Management has already completed removal of the language from the usps.com website. Attached is a link to the new webpage design, which is already operational.
<http://www.usps.com/electronicpostmark/welcome.htm>.

Recommendation #3:

Initiate actions to collect on the past due EPM license fees from ePostmarks.

Response

Management agrees with the monetary findings of \$229,610 as stated in this report. Management has been consistent in informing ePostmarks that all license fees owed must be paid. As part of our efforts to implement an EPM 2.0 License agreement with significantly stronger Brand and Product controls, Management has been working with ePostmarks to end their current License agreement and upgrade them to EPM 2.0 if possible. Management has informed ePostmarks that all past due amounts must be paid before a 2.0 License agreement can be signed, and that the current license agreement can only continue until it is clear whether ePostmarks will sign a 2.0 agreement. Management is currently in discussions with ePostmarks and a decision is expected by 9/1/10. At that time, Management will either collect past due amounts if an agreement is reached, or initiate our "Termination for Convenience" 90 day clause and seek collection of past due amounts. Management will inform the OIG when 2.0 contract decision with ePostmarks has been achieved.

In conclusion, Management agrees with the findings and recommendations of the OIG and in fact had been operating against those same objectives prior to the report. Business Development, along with Postal Technology Management, are currently developing a recommendation of the required funding needed to provide appropriate system controls and will be developing the business plan to justify the investment.



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