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SUBJECT: Audit Report – Move Update Program and Investigations  
(Report Number SA-AR-10-001)

This report presents the results of our audit of Move Update Program and investigations (Project Number 09YG036SA000). Our objectives were to assess internal controls over the Move Update Program and determine if the Postal Inspection Service conducted Move Update investigations according to U.S. Postal Service policies and procedures.

We conducted this audit as a result of concerns we received from mailers regarding Postal Inspection Service Move Update investigations. Specifically, mailers expressed concerns regarding inconsistent standards and tolerance levels used to assess Move Update compliance, large mailers being targeted in Move Update investigations, inappropriate conduct by postal inspectors, and incorrect calculations of revenue deficiencies. We also reviewed the resolution of cases and settlements resulting from Move Update investigations. This audit addresses operational and financial risk. See [Appendix A](#) for additional information about this audit and our findings regarding specific mailer concerns.

### **Conclusion**

Although the costs associated with undeliverable as addressed (UAA) mail exceeded an estimated \$1.5 billion and the discounts associated with Move Update compliance exceeded \$3.5 billion for fiscal year (FY) 2008, the Postal Service did not establish a sufficient method to evaluate compliance with Move Update standards at acceptance until 2009, 12 years after Move Update began. Even with this new compliance effort, many mail acceptance facilities do not have the necessary processing equipment to be able to assess compliance.

Additionally, compliance standards are not clear and consistent. The tolerance level established at mail acceptance for addresses that were not appropriately updated is high, at 30 percent. However, once the Postal Inspection Service establishes noncompliance with Move Update standards, there is zero tolerance, 100 percent of the discount is removed, and the mailings are assessed at the First-Class™ single-piece rate for up to 1 year, regardless of the extent of actual damages to the Postal Service.

To complicate matters further, if a mailer enters into settlement negotiations with the Postal Service, other items are considered in determining final liability, including actual damages, mailer intent, and goodwill. For example, the Postal Service deemed one mailer noncompliant with Move Update standards and assessed the First-Class single-piece rate for all mailings mailed within a 12-month period, resulting in a multi-million dollar revenue deficiency. However, the mailer demonstrated that most of the mail was updated in accordance with Move Update standards. This revenue deficiency was significantly reduced to a fraction of the original assessment during the settlement process because the actual damage to the Postal Service was significantly lower than the amount assessed during the investigation.

We also found that the 21 investigations we reviewed were all treated as administrative cases, rather than criminal or civil cases. Thus, law enforcement officers who receive special pay and benefits conducted these administrative investigations when non-law enforcement personnel could have done this work more economically, and in a less intimidating environment.

Lastly, nine of 21 cases reviewed resulted in settlement agreements. In our analysis we found that two of the settlements combined issues unrelated to Move Update (such as a complaint made by the mailer against the Postal Service). Using the settlement process to resolve complaints filed by mailers could discourage them from raising concerns and impact the Postal Service's ability to improve service and customer relationships.

These control weaknesses and inconsistent treatment of compliance issues have resulted in significant revenue at risk for the Postal Service, mailer frustration, and mailer concerns regarding a negative impact on their brand. Further, the Postal Service is at risk of losing significant future revenue from mailers who are threatening to stop using the mail to communicate with their customers.

## Summary of Results

### Controls over Discounts Associated with Move Update Compliance

The Postal Service provided mailers with discounts associated with Move Update compliance. However, until recently, the Postal Service did not determine whether the mailings met those standards.<sup>1</sup> Postal Service management implemented the Move Update Program in 1997, but did not develop and implement sufficient internal controls to evaluate compliance until 12 years later. As a result, we identified \$304 million in revenue at risk<sup>2</sup> for FYs 2008 and 2009 because there was no assurance that discounts provided were warranted.

In October 2008, the Postal Inspection Service's Los Angeles division conducted an internal review which identified serious internal control deficiencies with the Move Update Program that extended beyond noncompliance by mailers. Subsequently, the Postal Service implemented Performance Based Verifications (PBV) for Move Update and other enhancements, including policy changes. However, because PBV is only performed at sites with the Mail Evaluation and Readability Look-Up INstrument (MERLIN™) system, only about 10 percent of the mail acceptance units will be capable of performing Move Update assessments. According to the Postal Service, these units with MERLIN account for approximately 75 percent of business mail revenue. There are no verification plans for non-MERLIN sites, and those sites without MERLIN will not be able to assess Move Update compliance.

In addition, the Postal Service does not use clear and consistent standards regarding tolerance levels to evaluate Move Update compliance. Specifically, the 2009 mail acceptance process establishes a 30 percent tolerance for mailpieces that do not meet Move Update standards. Mailers deemed noncompliant are assessed 7 cents for each mailpiece in excess of the tolerance. The Postal Service initially named the charges related to the PBV process a "Move Update Noncompliance Charge" and subsequently changed the name to a "Move Update Assessment Charge."

However, since 2008 the Postal Inspection Service has been conducting a Move Update initiative that determines compliance by observing and analyzing return-to-sender (RTS) mail, reviewing mailing records, and interviewing mailers. If mailers were deemed noncompliant via an investigation, the Postal Service assessed them for 100 percent of the discounts taken, without regard for any tolerance. If a case goes into the settlement process, other matters such as mailer intent and actual damages can be considered.

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<sup>1</sup> Postal Service Publication 363, *Updating Address Lists is a Smart Move*, January 2009, states, "Mailers who plan to claim discounted First-Class Mail and Standard Mail prices must meet the Move Update standard for updating addresses."

<sup>2</sup> Revenue the Postal Service was at risk of losing.

Thus, a mailing could meet Move Update standards at acceptance, but be deemed noncompliant in a subsequent investigation, resulting in significant revenue deficiency assessments. Further, the methodology the Postal Inspection Service uses does not reflect actual damages to the Postal Service because it assesses the entire mailing at the First-Class single-piece rate rather than with the additional cost associated with processing mailpieces not updated in accordance with Move Update standards. Finally, assessments made during the investigation can be significantly reduced during the negotiated settlement process.

Postal Service and Postal Inspection Service officials consider the methodologies used in investigations and at acceptance to be unrelated. However, mailers have expressed concern that these procedures are incoherent. Specifically, they do not clearly distinguish the conditions that subject a mailing to Move Update assessment charges at acceptance from the conditions that would subject it to the significantly higher penalties associated with a finding of noncompliance as a result of an investigation. In addition, mailers were also concerned about the negative impact a federal criminal investigation could have on their business and their brand.

As a result of this lack of clarity and coherence and the large penalties associated with noncompliance, mailers are threatening to seek alternative ways to communicate with their customers, and Postal Service's customer service goals<sup>3</sup> are adversely affected. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the vice president, Business Mail Entry and Payment Technologies, in coordination with the vice president, Pricing:

1. Enhance the Move Update program to comprehensively verify compliance at mail acceptance and ensure collection of proper postage.
2. Ensure standards for determining Move Update compliance are consistent and clearly communicated to mailers.

### **Management's Comments**

Management partially agreed with recommendations 1 and 2. Management also disagreed with the \$304 million assets at risk, stating that the calculation as presented may not be an appropriate measure of assets at risk.

Specifically, although management disagreed with recommendation 1 as stated, they strongly agreed that it is vitally important to ensure all postage is properly collected at time of acceptance. Management stated it was not clear whether the U.S. Postal Service Office of Inspector General (OIG) was suggesting to equip all acceptance sites

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<sup>3</sup> Goals include providing consistent experiences across all contact points and convincing many more businesses to use or expand their use of mail. Further, the Postal Service will work with industry partners to give customers a better understanding of the steps involved in business mailing.

with MERLIN systems or to limit acceptance at sites with MERLIN only. Management also stated they plan to implement additional address quality assessments at acceptance, such as leveraging intelligent mail barcode to expand automated evaluation of address quality, which will help ensure collection of proper postage at acceptance. See [Appendix F](#) for management's comments, in their entirety.

Management partially agreed with recommendation 2 and stated they believe standards for Move Update compliance are clear and have been clearly communicated to mailers. Management stated they will continue to consistently and extensively communicate to postal employees and the mailers.

### **Evaluation of Management's Comments**

Management's plan to implement additional address quality assessments at acceptance by May 2011 is consistent with the intent of recommendation 1. While we are not suggesting increasing MERLIN systems at acceptance sites or centralizing all acceptance to MERLIN sites, management should explore additional methods and controls to ensure proper postage is collected at all mail acceptance sites. Management's proposal to use IMB to assess mailings at acceptance should help ensure collection of proper postage.

We disagree that standards for Move Update are clear and consistent. However, management's actions to consistently and extensively communicate to postal employees and mailers should help resolve the issues identified. The OIG plans to monitor the issues in recommendations 1 and 2, and conduct follow up as necessary.

Regarding our revenue at risk calculation, the Postal Service provided mailers with discounts associated with Move Update compliance without assessing whether those mailings were compliant. We used a conservative approach to determine the discounted postage provided to mailers. We explained our methodology for quantifying revenue at risk in [Appendix C](#).

### **Move Update Investigations**

In 20 of 21 cases we reviewed, inspectors appropriately established that penalized mailers were not in compliance with Move Update standards. For the remaining case, the mailer was deemed noncompliant and assessed 100 percent of the discounts taken for a 12-month period, resulting in a revenue deficiency over \$300,000. Subsequently, the mailer appealed the investigative findings to the Pricing Classification Service Center (PCSC), and appeal officials reduced the deficiency to less than a quarter of the original assessment because the mailer proved they used a Move Update exempt, alternative address format for the majority of their mailings. For the remaining mailings, although the mailer provided support to confirm using the National Change of Address Linkage System (NCOA<sup>Link</sup>) to identify address changes, the mailer was unable to

provide documentation to confirm they updated their mailing lists based on the NCOA<sup>Link</sup> data.

Although alleged, we did not find that the Postal Inspection Service targeted large mailers for investigations, as seven of the 21 cases reviewed did not involve large-volume mailers. To obtain leads, the Postal Inspection Service (1) monitored large volumes of RTS mail identified through Postal Automated Redirection System (PARS) and Remote Performance Diagnostic System (RPDS) reports, (2) conducted mail observations, (3) analyzed samples of mailpieces through the National Customer Support Center (NCSC), and (4) used Postal Service employee tips. During our audit, the Postal Inspection Service established standard procedures for evaluating prospective cases, to include guidance for intercepting RTS mail, obtaining mail covers, and conducting NCOA analysis.

Once inspectors established the leads, they did not use PARS to determine revenue deficiencies in their investigations. Therefore, although previous audit work<sup>4</sup> identified problems with the PARS system (which the Postal Inspection Service used to identify potential non-compliant mailers), it did not have any impact on assessments to mailers.<sup>5</sup>

Also, we found no indication that inspectors conducted themselves inappropriately during investigations. However, we found that revenue deficiencies were not always calculated correctly. Additionally, we question whether the use of law enforcement personnel for these administrative cases was the most economical method of resolving this compliance issue.

### Calculation of Revenue Deficiencies

Mailers expressed concern with the accuracy of revenue deficiency calculations and we found that inspectors did not always calculate revenue deficiencies consistently and correctly, and management did not always conduct appropriate reviews of revenue deficiency assessments.<sup>6</sup> Specifically, revenue deficiency calculations for three of 21 investigative cases we reviewed contained errors. These errors resulted in about \$342,152 in overstated revenue deficiency assessments to the mailers. For example, we reviewed two case files in which the inspectors calculated the revenue deficiencies using a 13-month timeframe instead of 12 months in accordance with their standard practices. Also, one case included mailings that used the exempted alternative address format.

Two of these errors (totaling \$306,781) were corrected during the appeals process. However, the remaining \$35,371 error was not identified and corrected during the

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<sup>4</sup> U.S. Postal Service Office of Inspector General (OIG) report titled *Address Quality* (Report Number IS-AR-09-007, dated July 30, 2009).

<sup>5</sup> Mailers also alleged the Postal Inspection Service used Intelligent Mail Barcode (IMB) to target large mailers; however, for the cases reviewed, we did not find any indications the IMB was used.

<sup>6</sup> Postal Service Management Instruction, DM-140-2008-1, *Assessing and Collecting Deficiencies in Postage or Fees*, May 27, 2008.

appeals process. These overstated revenue deficiencies occurred because the Postal Inspection Service and Postal Service did not establish mandatory comprehensive training for personnel responsible for conducting Move Update investigations and evaluating revenue deficiency reports. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the chief postal inspector and the vice president, Business Mail Entry and Payment Technologies:

3. Establish mandatory comprehensive training for responsible personnel to ensure revenue deficiencies are appropriately assessed.

We recommend the finance manager, Western Area:

4. Review the overstated revenue deficiency to determine whether the amount should be reduced.

### **Management's Comments**

Management partially agreed with recommendation 3 and stated that the management instruction for assessing and collecting revenue deficiency required clarification. Management agreed that all responsible personnel should fully understand their roles and the Move Update process. However, they disagreed that revenue deficiency calculations for 3 cases contained errors; therefore they did not agree to provide mandatory comprehensive training.

Management disagreed with recommendation 4 and stated that there were no revenue calculation errors due to facts and circumstances uncovered during the investigation. They further stated that postal policy identifies exceptions to the general rule limiting assessment periods to 12 months.

### **Evaluation of Management's Comments**

We acknowledge there are exceptions to the 12 month assessment period. However, as noted in the report, it was not the Postal Inspection Service's standard practice to assess revenue deficiencies beyond 12 months. Additionally, based on our review of the investigative case files, inspectors intended to use a 12 month period but erroneously calculated 13 months. Furthermore, the PCSC corrected a similar case that used a 13 month period during the appeals process by reducing the deficiency period to 12 months. Clarifying postal policy for assessing revenue deficiencies and providing comprehensive training to all responsible personnel would help ensure revenue deficiency calculations are appropriately assessed.

## Use of Law Enforcement Personnel for Move Update Compliance

We found that the Postal Inspection Service conducted Move Update investigations although, for the most part, there was no expectation of civil or criminal prosecution. Postal inspectors reviewed the cases for blatant civil or criminal violations and found that, in most instances, mailers were not compliant with Move Update requirements. However, due to insufficient controls over discounts associated with compliance and the inability to obtain sufficient evidence to support a civil or criminal case, the Postal Inspection Service expected to resolve most cases administratively.<sup>7</sup> Also, prior investigations and training materials indicated most mailers believed they were compliant with Move Update standards.

Of the 21 Move Update investigative cases we reviewed, none were prosecuted civilly or criminally by a U.S. Attorney's Office. Only one case was presented to a U.S. Attorney's office for civil prosecution; however, the case was settled prior to litigation. According to the Postal Inspection Service, Move Update investigations have resulted in approximately \$36 million in recoveries to the Postal Service. However, non-law enforcement personnel could monitor Move Update compliance more economically. In addition, the use of law enforcement officers to conduct these case interviews could result in an unfamiliar and unnecessarily intimidating environment for mailers.

We recommend the chief postal inspector:

5. Limit the use of postal inspectors to Move Update investigations with expectations of civil or criminal prosecution.

## **Management's Comments**

Management disagreed with recommendation 5 and stated that they believe law enforcement resources used in these investigations were appropriate because their investigations focused on mailer's falsely certifying that they used Move Update standards on their postage statements.

## **Evaluation of Management's Comments**

We believe law enforcement resources should be focused on mailers that willingly and knowingly attempt to defraud the Postal Service and where civil or criminal prosecution is likely. None of the cases we reviewed resulted in civil and criminal prosecution. These cases could have been evaluated more economically by non-law enforcement personnel. As noted in the report, prior investigations and training materials indicated that most cases would likely be resolved administratively.

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<sup>7</sup> Training provided to inspectors indicated these cases would most likely be administrative. In addition, two inspectors stated they would not be comfortable pursuing cases civilly or criminally given their knowledge of internal controls weaknesses.

## Settlement Agreements

Nine of the 21 cases we reviewed resulted in settlements. We reviewed those settlement agreements to determine how cases were resolved. Our analysis of the nine cases revealed that two settlement agreements combined issues unrelated to Move Update, such as a complaint a mailer made against the Postal Service. Using the settlement process to resolve complaints filed by mailers could discourage them from raising concerns and impact the Postal Service's ability to improve service and customer relationships. Furthermore, mailers may feel compelled to settle to avoid the negative perception associated with a federal criminal investigation.

In January 2010, the Postal Service established a cross-functional committee of senior executives, including the chief postal inspector; senior vice president intelligent mail and address quality; and senior vice president general counsel to establish and implement an integrated, centralized review process to evaluate revenue deficiency assessments and ensure consistency throughout the process. Therefore, we are not making any recommendations regarding the settlement agreement process in this report. See [Appendix B](#) for our detailed analysis of this topic.

The OIG considers management's comments responsive to all the recommendations. We view the partial agreement on recommendation 3 and disagreements on recommendations 4 and 5 as unresolved. However, we do not plan to pursue these recommendations through the formal audit resolution process.

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. Recommendations 1 and 2 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 Andrea Deadwyler, director, Human Resources and Security, or me at 703-248-2100.

E-Signed by Mark Duda   
VERIFY authenticity with ApprovedIt  


Mark W. Duda  
Deputy Assistant Inspector General  
for Support Operations

Attachments

cc: Thomas G. Day  
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## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

The Postal Inspection Service protects Postal Service employees and customers, secures the mail, and safeguards revenue and assets. To help prevent revenue loss, the Postal Inspection Service conducts investigations of postage and revenue fraud. They also ensure revenue protection measures are incorporated into new Postal Service products, systems, and services. In Quarter 1, FY 2009, the Postal Inspection Service increased investigations of revenue and postage fraud related to the Postal Service's Move Update Program.

In FY 2008, the Postal Service generated \$56 billion in commercial revenue and has offered significant discounts since 1997 to mailers who certified they met Move Update standards. Compliance with these standards reduces the number of mailpieces that require forwarding or RTS services. In FY 2008, the Postal Service estimated they handled more than 9 billion pieces of UAA mail at a cost of over \$1.5 billion. To comply with Move Update, mailers are required to compare their address records against customer-filed change-of-address (COA) orders and make the necessary updates at least 95 days prior to the mailing. Mailers are required to use an approved Move Update method to periodically update addresses. The Postal Service offers the following methods for First-Class and Standard Mail® and two alternative methods for First-Class Mail® only:

Move Update Methods:

- Address Change Service (ACS) and OneCode ACS®: After mail acceptance, the Postal Service notifies mailers of address changes.
- NCOA <sup>Link</sup>: Provides mailers with periodic COA information.<sup>8</sup>
- FASTForward Multiline Optical Character Reader: A pre-mailing process that allows mailpieces to be updated in-house when checked against the Postal Service's COA database.
- Ancillary Service Endorsement (ASE): Mailers may use an ASE to request a hard-copy notification of the addressee's new address and to tell the Postal Service how to handle UAA mail. Mailers may combine ASE with other approved Move Update methods.

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<sup>8</sup> The NCOA <sup>Link</sup> is a secure dataset of approximately 160 million permanent Postal Service COA records that consists of the names and addresses of individuals, families, and businesses.

Alternative Methods – First-Class Mail only:

- 99 Percent Accurate: Mailers submit their files directly to the Postal Service for processing. If 1 percent or less of the submitted addresses have a COA on file, the files are considered Move Update compliant.
- Legal Restraint: Mailers are legally restricted from incorporating Postal Service COA information without direct notification from the addressee.

In November 2008, the Postal Service revised Move Update standards to:

- Increase the minimum frequency of Move Update processing from 185 calendar days to 95 days prior to the date of mailing.
- Extend the revised Move Update standards to include all Standard Mail<sup>9</sup> and automation-rate and presort-rate First-Class Mail.

Mailers who enter mail at discounted rates must certify on the postage statement that they updated the address on each mailpiece within the required timeframe. Additionally, effective May 2009, mailers must also indicate the Move Update method used on the postage statement.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

Our objectives were to assess internal controls over the Move Update Program and determine if the Postal Inspection Service conducted Move Update investigations according to Postal Service policies and procedures.

To accomplish our objectives, we interviewed Postal Service and Postal Inspection Service officials to gain an understanding of the Move Update Program and related roles and responsibilities. Additionally, we interviewed mailers and mailer representatives regarding their concerns for Move Update and related investigations. We reviewed applicable policies and procedures and assessed internal controls.

We reviewed the Postal Inspection Service's Move Update investigative cases that had a revenue deficiency identified as of August 2009.<sup>10</sup> Case information was contained in the Inspection Service Integrated Information System, hard copy case files, and appeal documents. Furthermore, based on mailer complaints, we:

- Reviewed methodologies used to identify mailers as potentially noncompliant with Move Update standards.

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<sup>9</sup> Standard Mail includes letters, flats, parcels, and Not Flat-Machinables.

<sup>10</sup> We did not review the three original Move Update cases because they were closed prior to development of the Postal Inspection Service's Move Update training.

- Analyzed revenue deficiency calculations and supporting documents.
- Reviewed investigative details including jacketing dates, mail observations, address analysis, and mailer interviews to support noncompliance with Move Update.
- Reviewed settlement and appeal documents.

To quantify revenue at risk, we used Postal Service mail volumes, revenues, and rates, including presort First-Class letter revenue and volume from the Postal Service's published *Mailing Services (Marketing Dominant Products) Preliminary Revenue, Pieces, and Weight by Classes of Mail and Special Services* report for FYs 2008 and 2009. See [Appendix C](#) for our methodology for determining revenue at risk due to insufficient internal controls for monitoring and determining Move Update compliance.

We reviewed the Postal Inspection Service's Move Update training roster to determine whether responsible personnel received the training and contacted Postal Service officials who issued Move Update revenue deficiency letters to determine whether they received related training.

We verified the accuracy of computer-generated data for Move Update case files through discussions with applicable personnel and comparison of the data with other supporting documents. As a result, we consider the data sufficiently reliable to support the opinions and conclusions in this report.

We conducted this performance audit from June 2009 through April 2010 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management officials on April 9 and 16, 2010, and included their comments where appropriate.

## PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
<b>Postal Service Office of Inspector General: Address Quality</b>	IS-AR-09-007	July 30, 2009	<p>The Postal Service does not have consistent reporting capabilities that provide a reliable count of UAA mail. Additionally, there are systemic issues in PARS pertaining to imaged mailpieces as they are processed. Further, personnel responsible for handling UAA mail were not sufficiently trained. The OIG provided – and management agreed to implement – five recommendations to improve reporting mechanisms and the handling of UAA mail to ensure consistent, reliable, and measureable counts of UAA.</p>
<b>Postal Service Office of Inspector General: Address Management System Information – National Capping</b>	DR-AR-07-012	August 29, 2007	<p>District officials in the eight areas effectively managed the delivery address management system (AMS). However, opportunities exist for area officials to implement best management practices from the New York Metro Area's New York District to improve the quality of AMS data to process and deliver the mail. The eight audit reports contained 30 recommendations for management to implement an AMS quality review program with potential savings totaling \$26.9 million over the next 10 years. Management agreed in principle with the findings and recommendations but did not always agree with the monetary impact.</p>
<b>Laurits R. Christensen Associates, Inc: Volumes, Characteristics, And Costs of Processing Undeliverable-As- Addressed Mail And Personal- Knowledge- Required Mail</b>	Laurits R. Christensen Associates, Inc.	May 2007	<p>The purpose of this study was to provide comprehensive information on the volumes, characteristics, and costs of processing UAA mail and to evaluate proposed Move Update rule changes. The Postal Service proposed three changes to the address quality requirements that applied to Move Update. The changes consisted of reducing the minimum frequency processing time, eliminating ASEs with individual hardcopy notifications, and expanding the Move Update requirements to other mailings.</p>

<p><b>Postal Service Office of Inspector General: Change of Address – Application Control Review</b></p>	<p>IS-AR-06-013</p>	<p>June 17, 2006</p>	<p>Existing controls are sufficient to ensure the overall integrity of the data within the COA system. However, improvements could be made primarily in the areas of access controls, segregation of duties, protection of sensitive information, information security assurance documentation, and audit logging. Management agreed with the seven recommendations to improve the controls of the COA system.</p>
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## APPENDIX B: DETAILED ANALYSIS

### Controls over Discounts Associated with Move Update Compliance

Since 1997, the Postal Service has provided mailers with discounts associated with Move Update compliance. However, it did not develop and implement sufficient internal controls to determine whether those mailings met Move Update standards until 12 years later, in April 2009. In our conservative calculation, we identified \$304 million in revenue at risk for FYs 2008 and 2009. We determined revenue was at risk because there was no assurance that discounts provided were warranted. In addition, because the Postal Service accepted the mailings, mailers may have perceived they were compliant with the standards. Internal controls serve as the first line of defense in safeguarding assets and should provide reasonable assurance that objectives for effectiveness and efficiency are achieved.<sup>11</sup> See [Appendix C](#) for our revenue at risk methodology and calculations.

We also found the Postal Service does not use clear and consistent standards regarding tolerance levels to evaluate Move Update compliance. Specifically, in April 2009, the Postal Service established the PBV process and began applying a 30 percent tolerance for mailpieces that did not meet Move Update standards at acceptance. For mailings that fail PBV, the Postal Service accepts the mailings; however, effective January 2010, the Postal Service began charging mailers 7 cents for each mailpiece in excess of the 30 percent tolerance. The PBV process uses COA information from the NCOA<sup>Link</sup> to assess mailings. See [Appendix D](#) for a flow chart depicting the flow of COA information from the Change of Address Record Server (CARS) to MERLIN. See [Appendix E](#) for a flow chart of the PBV process.

Since 2008, the Postal Inspection Service has been conducting its Move Update initiative, which determines Move Update compliance after mail acceptance. To determine Move Update compliance, inspectors observed and analyzed RTS mail, reviewed mailing records, and interviewed mailers. If mailers were deemed noncompliant during these investigations, the Postal Service assessed mailers for 100 percent of the discounts taken, without regard to the 30 percent tolerance. This is inconsistent with the standards used at acceptance. A mailing could pass PBV at acceptance, but still be subject to a revenue deficiency resulting from a subsequent investigation for noncompliance, regardless of the extent of the actual damage to the Postal Service.

Additionally, the Postal Regulatory Commission (PRC) expressed confidence that if mailers can demonstrate their good faith attempt to comply with Move Update requirements, only the Move Update Assessment Charge would apply.<sup>12</sup> However, the

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<sup>11</sup> GAO Standards for Internal Controls in the Federal Government, November 1999.

<sup>12</sup> PRC, *Order Reviewing Adjustment and Classification Changes Related to Move Update Assessments*, Order No. 348, Docket No. 2010-, 1 November 25, 2009.

Postal Service stated they reserved the right to use audits or other procedures to verify compliance with Move Update standards and additional postage may be assessed.<sup>13</sup>

To complicate matters further, if a mailer enters into settlement negotiations with the Postal Service, other items are considered in determination of final liability, including actual damages, mailer intent, and goodwill. For example, one mailer was assessed the First-Class single-piece rate for all mailings mailed within a 12-month period, which resulted in a multi-million revenue deficiency. However, the revenue deficiency was reduced to a fraction of the original assessment during the settlement process to better reflect damages to the Postal Service.

Postal Service and Postal Inspection Service officials consider the tolerance level used at acceptance unrelated to the methodology used in investigations. According to the Postal Service, the PBV process used at acceptance does not establish compliance or noncompliance with Move Update standards; it is a tool to test mailings and is designed to facilitate mail acceptance.<sup>14</sup> However, although officials indicated to us that these are separate and unrelated standards, the Postal Service initially named the charges related to the PBV process a "Move Update Noncompliance Charge" and subsequently changed the name to a "Move Update Assessment Charge." The Postal Service also announced to mailers that they were implementing the PBV process to assist them with improving the quality of their addresses and obtaining the optimum results from their compliance efforts. Mailers have expressed that they are unclear about the conditions that would subject a mailing to Move Update assessment charges at acceptance and those that would subject it to the significantly higher penalties associated with a finding of noncompliance as a result of an investigation.

Additionally, the Postal Service has submitted changes to the PRC that included clarifying the difference between the Move Update assessments at mail acceptance and subsequent revenue deficiency assessments resulting from investigations. As a result, the PRC advised the Postal Service to take the necessary steps to ensure the standards regarding whether a mailpiece will pass or fail are plainly stated and clearly known to mailers.

We found the Postal Service did not establish sufficient internal controls, such as a comprehensive process to assess mail for Move Update compliance at acceptance. As a result, we identified significant Postal Service revenue at risk. Furthermore, the Postal Service is at risk of losing significant future revenue because mailers are threatening to seek alternative methods of communicating with their customers. Also, the Postal Service's customer service goals are adversely affected.

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<sup>13</sup> *Move Update Advisement Policy*, updated August 2009.

<sup>14</sup> PRC, *Order Reviewing Adjustment and Classification Changes Related to Move Update Assessments*, Order No. 348, Docket No. 2010-1 November 25, 2009.

## Move Update Investigations

In 20 of 21 Move Update investigative cases we reviewed, we found that inspectors established that mailers were not in compliance with the Move Update process. For one of the 21 cases, the Postal Inspection Service concluded the mailer was noncompliant and the Postal Service assessed 100 percent of the discounts taken for a 12-month period, resulting in a revenue deficiency of over \$300,000. The mailer appealed the case and the PCSC reduced the amount to less than a quarter of the original assessment because the mailer used an alternative address format for the majority of their mailings, which were exempt from Move Update requirements. For the remaining mailings, the mailer provided support to confirm they used the NCOA<sup>Link</sup> to identify address changes but was unable to provide documentation to confirm they updated their mailing lists.

### Selection of Mailers for Investigation

We reviewed the Postal Service's methodology for identifying potential noncompliant mailers and we did not find they targeted large mailers for investigations. Large-volume mailers mail over 10 million pieces annually and seven of the 21 cases reviewed involved mailers that did not fit in this category. To identify potential noncompliant mailers, the Postal Inspection Service monitored large volumes of RTS mail identified through PARS and RPDS reports, conducted mail observations, analyzed samples of NCSC mailpieces, and used Postal Service employee tips. Although inspectors used PARS to identify potentially noncompliant mailers, they did not use it to determine revenue deficiencies resulting from Move Update investigations. Also, mailers alleged the Postal Service used IMB to target large-volume mailers; however, for the cases reviewed, we did not find any indications the Postal Inspection Service used the IMB.

### Conduct of Postal Inspectors

We did not find that postal inspectors were inappropriate in their conduct with regard to Move Update investigations. Most mailers we interviewed stated that inspectors appropriately identified themselves and the purpose of their visits.

We contacted the customer who alleged that postal inspectors did not appropriately identify themselves during their Move Update investigation. However, the customer informed us the matter was settled and considered closed and, as such, declined to provide additional information. We also reviewed the Postal Inspection Service's internal review regarding this allegation, which found that postal inspectors properly identified themselves and signed in at the facility.

### Calculations of Revenue Deficiencies

Postal Inspection Service personnel did not always calculate revenue deficiencies consistently and correctly and Postal Service management did not always conduct

appropriate reviews of revenue deficiency assessments as required. Specifically, revenue deficiency calculations for three of 21<sup>15</sup> investigative cases we reviewed contained errors. These errors resulted in about \$342,152 in overstated revenue assessments to the mailers. For example:

- Two calculations included revenue deficiencies for 13 months rather than the 12 months the inspectors used as a standard practice. The Postal Service may review previous mailings to calculate the assessment no more than 12 months before the date the deficiency was discovered.<sup>16</sup> In both cases, based on the case documentation, it appears the Postal Inspection Service intended to assess 12 months, but erroneously calculated 13 months. These calculation errors resulted in a minimum of \$71,894 in overstated assessments to the mailers. In one of the cases, the PCSC corrected the assessment error during the appeal and reduced the deficiency assessment period to 12 months.
- One calculation included mailings that used an alternative address format, which are exempt from Move Update requirements.<sup>17</sup> This error resulted in about \$270,258 in overstated assessments to the mailer.<sup>18</sup> See chart below for overstated revenue deficiency calculations and the results:

<b>Overstated Revenue Deficiencies</b>			
<b>Appeal Case Number</b>	<b>Original Deficiency Calculation</b>	<b>Amount Overstated</b>	<b>Result</b>
919838/922515	\$424,006	\$35,371	Partially corrected during appeal <sup>19</sup>
931076	544,102	36,523	Corrected during appeal
931582	330,629	270,258 <sup>20</sup>	Corrected during appeal

<sup>15</sup> The OIG issued subpoenas for three of the 21 cases reviewed. However, the OIG was not actively involved in the cases.

<sup>16</sup> Management Instruction, *Assessing and Collecting Deficiencies in Postage or Fees*, May 27, 2008.

<sup>17</sup> *Domestic Mail Manual, Mailing Standards of the United States Postal Service*, updated April 5, 2010, states that except for mail bearing an alternative address format, addresses used on pieces claiming First-Class Mail presorted prices must meet Move Update standards.

<sup>18</sup> The amount is based on calculations from information provided in the mailer's appeal that claimed about 82 percent of the assessed mailings contained alternative addresses.

<sup>19</sup> During the appeal process this amount was reduced to \$403,722 due to a data entry error. However, the additional 13-month discrepancy was not identified during the appeals process.

<sup>20</sup> The revenue deficiency amount the OIG determined varied from the amount identified by the PCSC. The OIG based calculations for alternative addresses on 81.74 percent of 4,544,757 mailpieces identified in the investigation. The PCSC calculations were based on approximately 4,482,642 mailpieces.

This occurred because the Postal Inspection Service and Postal Service did not establish mandatory comprehensive training for personnel responsible for conducting Move Update investigations and evaluating revenue deficiency reports. Specifically:

- Three of 16 (19 percent) inspectors who conducted Move Update investigations did not complete the Postal Inspection Service Move Update training course and one individual without training was involved in a case with a calculation error.<sup>21</sup>
- Three of seven (43 percent) Postal Service personnel who signed revenue deficiency letters did not complete any Move Update training and two individuals without training were involved in cases with calculation errors.<sup>22</sup>

### Use of Law Enforcement Personnel for Move Update Compliance

The Postal Inspection Service conducted Move Update investigations, although there was minimal expectation for civil or criminal prosecution. Postal inspectors reviewed cases for blatant civil or criminal violations and found that, in most instances, mailers were not compliant with Move Update requirements. However, they expected to resolve the cases administratively. The cases we reviewed were resolved administratively for various reasons, including insufficient internal controls and inability to obtain sufficient evidence to support a civil or criminal case.

Further, only one of the 21 cases we reviewed was presented to a U.S. Attorney's office and this case was settled before litigation. Additionally, the Postal Inspection Service's Los Angeles division conducted an internal review regarding Move Update compliance and protection of Postal Service revenue that identified serious internal control deficiencies, which extended beyond noncompliance by mailers and included culpability by the Postal Service. These issues could have hindered the Postal Inspection Service's ability to pursue cases civilly or criminally. Additionally, non-law enforcement personnel could monitor Move Update compliance more economically than postal inspectors, who receive Law Enforcement Availability Pay and other benefits. To ensure efficient use of law enforcement personnel, the Postal Service should limit the use of postal inspectors to Move Update investigations with more potential for civil and criminal prosecution. According to the Postal Inspection Service, since January 2010, they have decided to close 62 cases. Of the 62 cases, 22 were referred to the local BMEU for appropriate action, 30 were closed with no referral, and 10 are pending a BMEU referral decision prior to closure.

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<sup>21</sup> The Postal Inspection Service provided an optional 2-day Move Update training course for inspectors. Additionally, a former postal inspector stated that, for Move Update investigations, he needed more training to better understand the Move Update process.

<sup>22</sup> Management Instruction, DM-140-2008-1, *Assessing and Collecting Deficiencies in Postage or Fees*, May 27, 2008, states that managers of BMEUs, district finance managers, and postmasters are responsible for evaluating revenue deficiency reports and authorizing revenue assessment letters.

## Settlement Agreements

Nine of the 21 cases reviewed resulted in settlement agreements. Our analysis of the settlements found that two settlement agreements combined issues unrelated to Move Update. One of the two settlements included a complaint made by the mailer against the Postal Service. Using the settlement process to resolve complaints filed by mailers could discourage them from raising concerns and impact the Postal Service's ability to improve service and customer relationships.

In June 2009, the Postal Service established a cross-functional committee of senior executives to establish and implement an integrated, centralized review process to evaluate revenue deficiency assessments and ensure consistency throughout the process. The committee includes the chief postal inspector; senior vice president, intelligent mail and address quality; and senior vice president, general counsel. Therefore, we are not making any recommendations regarding the settlement agreement process in this report.

### APPENDIX C: NON-MONETARY IMPACT

The Postal Service provided discounts without fully assessing whether mailings were compliant with Move Update standards. As a result, the revenue at risk was the discounted postage provided to mailers. As a conservative approach, we identified the discounted revenue and made adjustments for exempt alternative addresses. To determine the discounts provided, we subtracted the adjusted discount revenue from the 42 cents single-piece postage.<sup>23</sup> This is the amount that would have been paid without the discounts. From the calculated discounts, we identified the greatest risk for Move Update noncompliance by applying the percentage of mail volume that failed the PBV Move Update test in excess of the 30 percent tolerance.<sup>24</sup> To quantify the revenue at risk, we:

- Identified the volume and discount revenue for First-Class presort letters for FYs 2008 and 2009.<sup>25</sup>
- Subtracted 10 percent from the total volume and revenue to account for exempt alternative addresses, which are not required to meet Move Update standards.<sup>26</sup>
- Determined the single-piece postage that would have been paid without a discount by multiplying the single-piece rate (42 cents) by the adjusted First-Class presorted letter volume for FYs 2008 and 2009.
- Determined the discounted postage by subtracting the adjusted First-Class presorted letter revenue for FYs 2008 and 2009 from the calculated single-piece postage.
- Calculated the greatest risk for Move Update noncompliance by multiplying the percentage of First-Class Mail volume that failed the Move Update test in excess of the 30 percent tolerance (4.7 percent).<sup>27</sup>

Based on our analysis as shown in the table below, we identified \$304,332,943 in revenue at risk for FYs 2008 and 2009.

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<sup>23</sup> We used a conservative 42 cents single-piece rate because the average First-Class single-piece letter rate for FYs 2008 and 2009 were \$0.428 and \$0.443 respectively.

<sup>24</sup> Within the MERLIN® sample, the Move Update test identified mailpieces that did not have updated addresses, including those with names and addresses that did not match COA orders filed between 95 days and 18 months before the acceptance date.

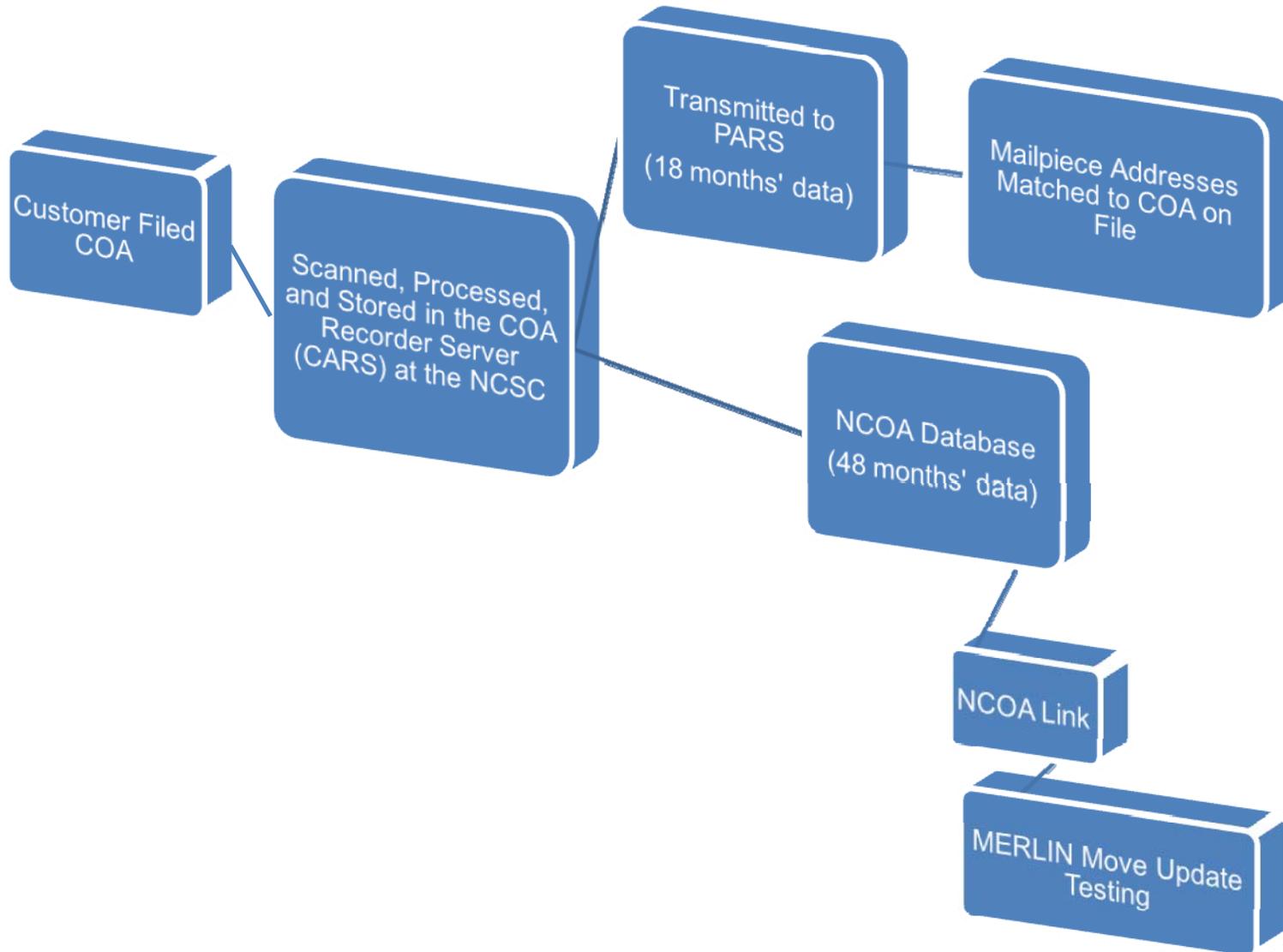
<sup>25</sup> Mailing Services (Market Dominant Products) Preliminary Revenue, Pieces, and Weight by Class of Mail and Special Services for FY 2009 Compared with the Corresponding Period of FY 2008

<sup>26</sup> The Postal Service did not have the actual amount of alternative addressed mail attributable to First-Class presort letter revenue but indicated the amount is negligible. We used 10 percent as a conservative estimate for our calculations.

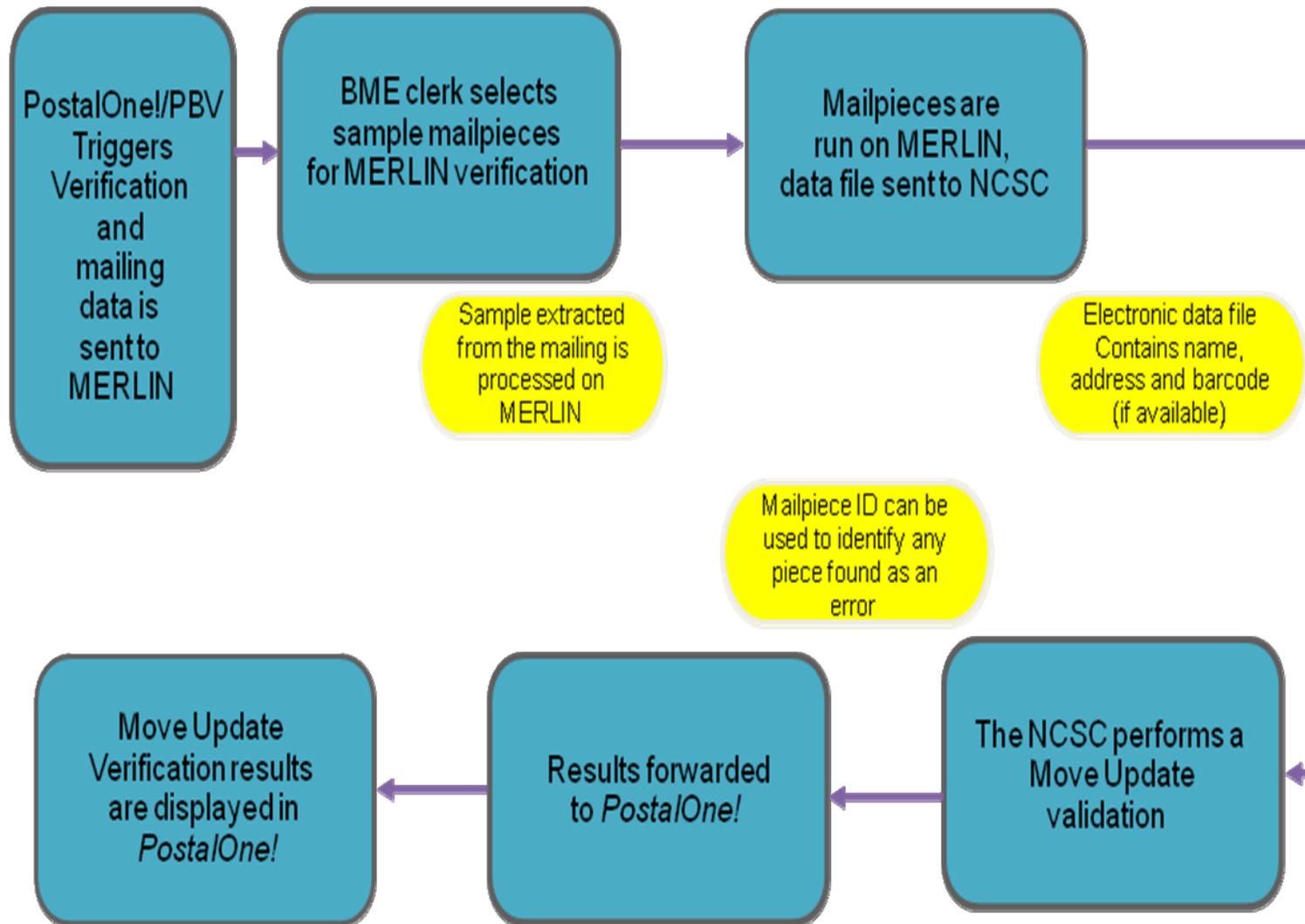
<sup>27</sup> Testing results from the *United States Postal Service Notice of Market Dominant Price Adjustment and Classification Changes*, Appendix B1, filed October 15, 2009.

<b>Revenue at Risk Calculations</b>		
<b>Fiscal Years 2008 and 2009 First-Class Presort Letter Data and Adjustments</b>		
	<b>Volume</b>	<b>Revenue</b>
Subtract 10% from total volume and revenue to account for alternative addresses	93,187,574,641	\$31,944,149,129
	<u>9,318,757,464</u>	<u>3,194,414,913</u>
Totals adjusted for alternative addresses	83,868,817,177	\$28,749,734,216
<b>Single-Piece Postage</b>		
Multiply the volume by the single-piece rate (42 cents)	83,868,817,177	
	<u>\$ 0.42</u>	
Single-piece postage		\$35,224,903,214
<b>Revenue at Risk</b>		
Subtract First-Class Mail presort letter revenue from single-piece postage	\$35,224,903,214	
	<u>28,749,734,216</u>	
Postage discounts		\$6,475,168,998
Multiply Postal Service discounts by the First-Class Move Update testing results that exceeded the 30% tolerance threshold (4.7%)	\$6,475,168,998	
	<u>.047</u>	
Revenue at Risk		<b>\$304,332,943</b>

**APPENDIX D: CHANGE OF ADDRESS RECORD**



APPENDIX E: PERFORMANCE-BASED VERIFICATION PROCESS



**APPENDIX F: MANAGEMENT'S COMMENTS**



May 10, 2010

Lucine M. Willis  
Director, Audit Operations  
Office of Inspector General

RE: RESPONSE TO DRAFT AUDIT REPORT  
MOVE UPDATE PROGRAM AND INVESTIGATIONS  
(REPORT NUMBER SA-AR-10-DRAFT)

Postal Service management herewith submits its response to the above referenced draft audit report dated April 23, 2010.

A handwritten signature in cursive script, appearing to read "Pritha Mehra".

Pritha N. Mehra  
Vice President  
Business Mail Entry and Payment Technologies

A handwritten signature in cursive script, appearing to read "Maura Robinson".  
Maura Robinson  
Vice President  
PricingA handwritten signature in cursive script, appearing to read "William R. Gilligan".  
William R. Gilligan  
Chief Postal Inspector

Enclosure

475 L'ENFANT PLAZA SW  
Washington DC 20260-20260

May 10, 2010

**Lucine M. Willis**  
**Director, Audit Operations**  
**Office of the Inspector General**

**RE: Transmittal of Draft Audit Report – Move Update Program and Investigations (Report Number SA-AR-10-DRAFT)**

The following represents Postal management's response to the above-referenced draft audit report. Before providing specific responses to the individual recommendations, Postal management would like to highlight certain fundamental flaws in the audit conclusions.

The Postal Service strongly disagrees with the report's conclusion on page 2 that "compliance standards are not clear and consistent." This flawed conclusion is based upon a misunderstanding on the part of the audit team of the work performed by the BMEU at the point of mail acceptance. The BMEU is examining a sample of an individual mailing to determine if the change of address accuracy within that sample meets an established accuracy threshold for acceptance. On the other hand, the Inspection Service is focused on identifying those mailers who claim presort discounts but who falsely certify on their postage statements that their mailings were prepared pursuant to an approved Move Update process. When a mailer is determined to have falsely certified compliance with a Move Update Standard on their postage statement, the mailer is not qualified to mail at the presort discounts. For this reason, the postage costs for the entire mailing or mailings at issue are recalculated.

Postal management believes that this flawed conclusion has led to a number of other incorrect findings in the audit report as set out in more detail below.

**Recommendation 1: Enhance the Move Update program to comprehensively verify compliance at mail acceptance and ensure collection of proper postage.**

**Response 2:** Although the Postal Service strongly agrees that it is vitally important that the Postal Service ensure that all postage is properly collected at the time of acceptance, the Postal Service does not agree with this recommendation, as stated.

Initially, it is important to note that it is not clear from the audit report if the recommendation is to increase the number of MERLIN systems to all acceptance sites or if the recommendation contemplates centralizing all acceptance to those sites that are currently equipped with a MERLIN system. Neither alternative is appropriate as explained below.

The MERLIN system, through the Performance Based Verification (PBV) process, includes testing a sampling of a randomly selected mailing for change of address accuracy within that sample. This approach for evaluating address quality is intentionally designed as a risk-based approach and is currently utilized at every acceptance site equipped with a MERLIN system.

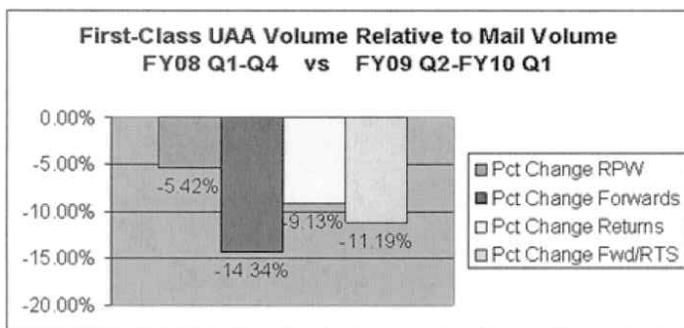
Presently, there are 1114 MERLIN systems deployed nationwide. Since it is not financially feasible to deploy a MERLIN system in every site that performs mail acceptance, MERLIN systems have been deployed in those locations that have the potential to maximize the amount of discounted mail that can be verified through this process. Approximately 75% of business mail revenue is received through sites that are equipped with a MERLIN system. For this reason we do not believe it would be financially prudent to further deploy MERLIN systems in additional mail acceptance sites. We also do not believe it would be appropriate to restrict mailers from depositing discounted mailings at sites that are not equipped with a MERLIN system. This is particularly true in light of the planned technology solutions that will further enable the Postal Service to increase its focus on ensuring the proper collection of postage at the time of acceptance.

Our future plans are to continue to leverage the Intelligent Mail barcode to expand the automated evaluation of address quality. In November 2010, we will institute a charge for Periodicals and Standard Mail Full Service mailers that do not update their addresses within an applicable timeframe. A similar approach will be applied to First-Class Full Service mailings after the appropriate notice (via Federal Register Notice) is communicated to the mailers. The Postal Service has announced the retirement of the use of the POSTNET barcode in May 2011 for automation discounts and anticipates a steady growth in the use of the Intelligent Mail barcode. Depending on the adoption patterns for Full Service, the Postal Service will analyze the economic feasibility of introducing address evaluations for Basic mailings bearing an Intelligent Mail barcode as well.

The Postal Service would also like to point out that the combination of the PBV and the attention the industry has placed on Move Update compliance, due in part to the industry's knowledge of the Inspection Service initiative, has resulted in a measureable decrease in the amount of Undeliverable-As-Addressed mail pieces.

Based on a comparison of data for the 4 quarters occurring before November 2008 to the 4 quarters that followed, the amount of First-Class mail that required forwarding declined by 14.3% as compared to an overall volume decline of 5.4%.

UAA Trends Pre vs Post November 23, 2008



**Recommendation 2: Ensure standards for determining Move Update compliance are consistent and clearly communicated to mailers.**

**Response 2:** The Postal Service believes that the standards for Move Update compliance are clear and have been clearly communicated to its mailers. Because it is always a goal and objective of Postal Management to communicate in a useful and comprehensive fashion with our customer base, the Postal Service agrees that it will continue to provide information to our customers as the need arises.

To demonstrate some of our prior efforts in this regard, the Postal Service sets out below the communications we have issued in an effort to describe and clarify how a mailer must comply with the Move Update Standards and, therefore, qualify for the discounted postage prices.

**Communicating Standards for Move Update Compliance:**

Business Mail Entry and Payment Technology along with Mailing Standards established an extensive training and communications program for Move Update for both internal and external audiences. Widespread communications and training was conducted through various channels to include MTAC, PCCs, Webinars, DMM Advisory, MailPro, PCC Insider, Industry associations like MFSA, MMA, NPPC to name a few. Move Update notifications were posted and updated via the RIBBS website. Since December 20, 2007, over 15 DMM Advisories have been distributed on Move Update compliance. The Business Mail Acceptance Newsletter published information on Move Update Compliance in 25 editions. There was a national Business Mail Entry training in December, 2008 and a series of Webinars for Managers, Business Mail Entry

in March 2009 as well as September through October, 2009. Additional Webinars for the mailing industry were presented September through October, 2009.

A DVD on Move Update was developed and approximately 38,000 copies were distributed to Business Mail Acceptance in January 2009 to update mailers on Move update and Intelligent Mail. The DVD was accompanied with talking points. Webinars were conducted with USPS acceptance employees to ensure they understood the process and content prior to conducting education sessions with mailers. Managers of Business Mail Entry were instructed to distribute the video to acceptance sites. Employees at the acceptance sites conducted education sessions with mailers where they viewed the video, reviewed the talking points, featured questions and solicited feedback from January 2009 through April 2009. This event offered widespread visibility, communications and training to the mailing industry.

Copies of the video were supplied to the Postal Customer Councils (PCC). The DVD was also posted on RIBBS.

The extensive communication with the industry included Federal Register notices as follows: Federal Register Final rule September 28, 2007; Federal Register Move Update Assessment Final Rule October 27, 2009 and Federal Register Move Update Assessment Final Rule December 28, 2009.

A Move Update Workshop in a Box presentation was supplied to the field to be delivered at PCCs in January, 2008.

Available postings on RIBBS are the Move Update Frequently Asked Questions and Move Update Advisement policy both posted October 2008, Guide to Accessing Move Update report posted June, 2009, Move Update MERLIN Site Activation posted August, 2009 and the Move Update Advisement policy posted August, 2009 and updated January, 2010 and the Move Update Webinar Slides.

Targeted communications were conducted with several mailing associations to include MMA, MFSA and NPPC to name a few. Other communications included the Postal Regulatory Commission open hearing in October, 2009, numerous MTAC presentations starting in 2008, and Postal Bulletin articles. A Move Update eMail address was established to respond to customer inquiries.

Articles on Move Update were published in MailPro, PCC Insider and DM News. Several industry associations like MFSA published articles on Move Update.

It is managements position that based on all the training and communication activities described above, the Move Update policies and standards have been and will continue to be consistently and extensively communicated to postal employees and the mailers.

#### **Determining Compliance with Move Update Standards**

The Postal Service submits that there is a fundamental misunderstanding regarding how and when the Postal Service can determine a mailer's compliance with the Move Update Standards. This misunderstanding led to an incorrect conclusion in the audit report that mailers are subject to two different and confusing standards and penalties for Move Update non-compliance. This is simply not correct.

It is important to first point out that the Postal Service, at the time of mail acceptance, operates from the presumption that the mailer has complied with the Move Update Standards if the mailer makes that representation on a postage statement. The Postal Service accepts a mailer's word at the time of acceptance that the mailer's representations on his postage statements are accurate and reflect the mailer's best knowledge and understanding of the quality of the mail presented to a BMEU. The mailer certifies such on the postage statement and the BMEU relies entirely on this certification.<sup>1</sup> Any conclusion in this audit that a BMEU employee has the ability to evaluate the veracity of the certification (insofar as whether a mailer has fully complied with the Move Update process) is unfounded and mistaken. A BMEU employee cannot and does not make any independent determinations in this regard.<sup>2</sup> Absent an admission on the part of the mailer or his agent that the mail was not prepared in accordance with one or more of the Move Update processes, the BMEU assumes the mailer engaged in the Move Update process indicated on the postage statement.<sup>3</sup>

The Postal Service does not expect or demand perfection by a mailer in his mail preparation. As in all other mail acceptance sampling procedures, the Postal Service established a tolerance level for change of address inaccuracies in an otherwise Move Update compliant mailing. At the present time, the tolerance level for change of address inaccuracies is set at 30%.<sup>4</sup> PBV is simply the manner in which the BMEU measures the

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<sup>1</sup> The postage statement presented at the time of acceptance contains the following signed certification by the mailer or his agent:

The mailer's signature certifies acceptance of liability for an agreement to pay any revenue deficiencies assessed on this mailing, subject to appeal. If an agent signs this form, the agent certifies that he or she is authorized to sign on behalf of the mailer and that the mailer is bound by the certification and agrees to pay any deficiencies. The mailer hereby certifies that all information furnished on this form is accurate, truthful, and complete; the mail and the supporting documentation comply with all standards and the mailing qualifies for the prices and fees claimed; and that the mailing does not contain any matter prohibited by law or postal regulation. I understand that anyone who furnishes false or misleading information on this form or who omits information requested on this form may be subject to criminal and/or civil penalties, including fines and imprisonment.

<sup>2</sup> Because participation in one or more of the approved Move Update processes requires an examination of the process utilized and the quality controls standards used by a mailer, a BMEU employee is incapable of making a determination if the process indicated on the postage statement is actually utilized in a mailer's operations. A BMEU employee is only able to look at the mail pieces presented by a mailer.

<sup>3</sup> The postage statement requires a mailer to identify which approved process was used for the mailing being presented to a BMEU. A mailer may use one or more processes and is not required to use the same process for every mailing.

<sup>4</sup> The Postal Service, in consultation with the mailing industry, established a 30% tolerance for change of address inaccuracies at the time of acceptance. Over time it is expected that the tolerance percentage will be reduced.

change of address quality of an individual mailing sample to determine if the error rate within the mailing is an acceptance error rate for that mailing.<sup>5</sup>

On the other hand, the Postal Service does expect and demand that a mailer engage in one of the Move Update processes that have been a pre-requisite for any discounted mailing price since 1997. There is an important factual and legal distinction that must be made between a mailer who has engaged in a good faith effort to meet the Move Update Standard but nonetheless has change of address inaccuracies in its final mail product and the mailer who falsely certifies that the mailing was prepared pursuant to the Move Update Standards. This distinction is at the heart of this particular misunderstanding in the audit report findings.

And, this distinction is what distinguishes the PBV process from the Inspection Service investigations. Inspection Service investigations are not focused on identifying mailers who have addressing errors that PBV is meant to identify; rather, *these investigations are focused solely on identifying those mailers who falsely certify that their mailing procedures include the proper use of a Move Update process.* In other words, the Inspection Service investigations are identifying those mailers who have falsely certified that the mailing was entitled to a discount because the mailer has not properly addressed its mail pieces pursuant to the Mailing Standards set out in the DMM and Pub. 363.

When the Inspection Service discovers through an investigation that a mailer is not entitled to a price claimed, the Postal Service assesses a revenue deficiency for the mailings at issue or, if the facts and circumstances warrant, present the case to the Department of Justice for criminal or civil prosecution.<sup>6</sup> In contrast, when a mailer is properly participating in an approved Move Update process, but the Postal Service finds change of address inaccuracies in a sample of mail during a PBV test at acceptance, the tolerance for change of address inaccuracies applies. Therefore, the Postal Service does not agree with the audit report conclusion that there are two different compliance standards.

Settlement: It is also important to note that both of these processes provide a mailer an opportunity to discuss the circumstances that lead to a particular PBV assessment or a revenue deficiency assessment and request mitigation of the debt for appropriate reasons. The audit report expressed some concern that, specific to the revenue deficiency discussions, the Postal Service had reduced the amount owed based on information the Postal Service first learned in these discussions. The Postal Service believes that each settlement reached was appropriate based on the specific facts and circumstances unique to the mailer's operations, its internal business rules and other relevant and often newly-

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<sup>5</sup> Elsewhere in the audit report, the auditors reference the fact that the "Postal Service did not establish a sufficient method to evaluate compliance with Move Update standards at acceptance until 2009." It is important to point out that this statement is incorrect in that there is no process in place at the point of acceptance that can measure if a mailer has prepared a mailing using one of the Move Update processes. The only measurement that can be conducted at the point of acceptance is the change of address accuracy in a sample of an individual mailing. See Audit Report at page 1.

<sup>6</sup> The Inspection Service's obligation to refer a matter to the Department of Justice is addressed more fully elsewhere in this response.

shared confidential information. In fact, the law requires that the Postal Service collect those debts to which it is owed but to also compromise, release or discharge the debt when the Postal Service deems just and expedient. See 39 USC § 2601. Postal management involved its internal legal counsel in each of the settlements reviewed to ensure that the appropriate legal considerations were properly reviewed.

**Recommendation 3: Establish mandatory comprehensive training for responsible personnel to ensure revenue deficiencies are appropriately assessed.**

**Response 3:** The Postal Service agrees that the existing Management Instruction that sets out the process for assessing and collecting a revenue deficiency requires clarification. However, the Postal Service does not agree with the audit conclusion that revenue deficiency calculations for three cases contained errors. It is the mistaken conclusion that the deficiency calculations were wrong that lead to a recommendation that additional training on assessing deficiencies is warranted. For this reason, the Postal Service does not agree with this recommendation, as stated.

Specifically, the audit report cites three out of 21 deficiencies as incorrectly calculated based on an assessment error. Two of these alleged errors are based on the audit report's incorrect conclusion that an assessment period must be limited to a 12 month period of time. Management's response to the fourth recommendation more fully addresses the reason that this conclusion is flawed. Nonetheless, the Postal Service is aware that this incorrect conclusion has been a common one and not limited to this audit report. Among other areas requiring clarification, the assessment period will be more clearly defined in a reissuance of the MI on Assessing and Collecting Revenue Deficiencies due to be published by the end of this calendar year.<sup>7</sup>

As to the third of the alleged errors, the Postal Service acknowledges that the Pricing and Classification Center (PCSC) correctly reduced that deficiency amount when the mailer informed the PCSC during the appeal process that a portion of the mail volume assessed in the deficiency was prepared in a fashion that was not required to comply with the Move Update Standard (alternate address). The Inspection Service and the Postal official that issued the revenue deficiency letter were not afforded the benefit of that information when the assessment was initially calculated.

Despite management's disagreement with the finding in this audit report, the Postal Service does not disagree with the general proposition that it is vitally important to the Postal Service and its stakeholders that everyone involved in the assessment of a revenue deficiency fully understand their role and the process, upon the release of the updated MI,

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<sup>7</sup> The report acknowledged that senior management has formed a cross-functional committee of senior level executives to address a number of issues related to improving the revenue assessment and collection activities. As a result of these committee meetings, the Postal Service is establishing a Headquarters unit, reporting through the Controller's Office, to centralize the issuance of certain high dollar deficiencies. This committee has also chartered the rewriting of the existing Management Instruction on the Assessment and Collection of Revenue Deficiencies to ensure that all ambiguities are clarified in the existing procedures. The Committee first met in June 2009 rather than the date contained in the audit report.

the new policy will be communicated to Managers Business Mail Entry through a teleconference with the Headquarters Manager Business Mail Acceptance and those other officials involved in the process through appropriate communication channels.

**Recommendation 4: Review the overstated revenue deficiency to determine whether the amount should be reduced.**

**Response 4:** The Postal Service disagrees with this recommendation as the assessment period for this revenue deficiency was not incorrect based on the facts and circumstances uncovered during the investigation.

A review of the Investigative Memorandum that led to the revenue deficiency at issue establishes that the assessment period for this deficiency should not have been limited to a 12 month period. The mailer began to improperly claim presort discounts for its mailings beginning in July 2007 and admittedly did so up to the date of the investigatory interview, August 13, 2008, without participating in any of the approved Move Update processes. Therefore, relying entirely on the admissions of the mailer, the mailings entered during the relevant period of time, starting in July 2007 and continuing until mid-August 2008, were not eligible for the presort rates and resulted in a revenue deficiency.

The Management Instruction that sets out the procedures for assessing a revenue deficiency identifies three exceptions to the general rule that the postal service limit an assessment period to 12 months. The first and third of these exceptions apply to this deficiency: (1) fraud or misrepresentation is reasonably suspected, and (3) mailing history discloses evidence of repeated noncompliance with mailing standards.

As to the first exception, the mailer and/or his agent submitted and signed postage statements that carried the following certification statement:

The mailer's signature certifies acceptance of liability for an agreement to pay any revenue deficiencies assessed on this mailing, subject to appeal. If an agent signs this form, the agent certifies that he or she is authorized to sign on behalf of the mailer and that the mailer is bound by the certification and agrees to pay any deficiencies. The mailer hereby certifies that all information furnished on this form is accurate, truthful, and complete; the mail and the supporting documentation comply with all standards and the mailing qualifies for the prices and fees claimed; and that the mailing does not contain any matter prohibited by law or postal regulation. I understand that anyone who furnishes false or misleading information on this form or who omits information requested on this form may be subject to criminal and/or civil penalties, including fines and imprisonment.

Because the mailer admitted that he had not participated in any Move Update process and misrepresented the mailings' eligibility on the postage statement, the Postal Service was not required to limit the assessment period to a 12 months time frame.

As to the third exception, the mailer entered discounted mailings every Monday and Friday over a thirteen month period without taking any steps to qualify the mailing under the Move Update standards; therefore, the Postal Service was not required to limit the assessment period to a 12 month time frame.

The Postal Service has concluded that the revenue assessment should not be reduced pursuant to this recommendation.

**Recommendation 5: Limit the use of postal inspectors to Move Update investigations with expectations of civil or criminal prosecution.**

**Response 5:** The Postal Service does not agree with this recommendation. Postal management believes that law enforcement resources used in these investigations was appropriate. It is important to note that the Inspection Service is focusing its efforts on those mailers that falsely certify on their postage statements that their mail qualifies for a particular discounted price. As discussed earlier in this report, in response to other recommendations, there is an important factual and legal distinction between the mailer who has change of address inaccuracies in their mailing despite their good faith efforts to comply with the Move Update Standard and those mailers who falsely certify that their mailings, in the entirety, are entitled to discounted prices.

Likewise, it is important to point out that the Office of the Inspector General found that 20 of the 21 cases reviewed during the audit represented Inspection Service investigations that uncovered mailings that were not entitled to the discounted rates – that is, the entire mailing was not qualified for the rate the mailer claimed. This is a significant finding in that each case represented a mailer who repeatedly entered mailings for which discounted prices were claimed when the mailer knew or should have known that the mailing did not qualify for the rates claimed.

The Department of Justice expects that the FBI and other investigative agencies carry out both criminal and civil fraud investigations concurrently, including investigations as to the extent of the government's damage.<sup>8</sup> To suggest that the Inspection Service is not required to conduct these investigations requires an unsupported conclusion before-the-fact that there is no basis to conclude that the mailer knew or should have known that their mailings were not qualified for the discounted prices claimed. The fruits of these investigations have proven otherwise. Following Inspection Service investigations, mailers have acknowledged that they knowingly failed in many different respects to comply with the Move Update Standards. Some reported that they did not engage in any Move Update process at all, others reported that they complied only partially or sporadically. Still others had developed internal business rules to avoid making addressing changes as required, often for the sole purpose of avoiding the costs associated with compliance. In each case, the mailer was aware that they were out of compliance, but certified otherwise on the postage statements at issue.

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<sup>8</sup> See United States Attorney's Manual, Title 4, -4.110.

Therefore, it is reasonable and necessary for the Postal Inspection Service to conduct investigations into the mailing practices of a mailer when the Postal Service reasonably believes that a mailer may be indebted to the Postal Service for additional postage due to the mailer's knowing, inaccurate representations on a postage statement.

Postal management and the Inspection Service agree that the role of the Inspection Service generally is not to enforce compliance. Rather, the Inspection Service focuses its time and investigatory efforts on those situations where there is physical evidence that a mailer is more likely than not out-of-compliance with the Move Update Standard. Indeed, the fact that 20 out of 21 cases demonstrates that the focus of their attention was appropriately directed at mailers out of compliance belies the mailers' complaints that they have been unfairly targeted. In fact, the Inspection Service launched their initiative following the successful resolution by the Department of Justice of three False Claims Act matters involving large commercial mailers who falsely certified their compliance with the Move Update Standard in mailings presented to the Postal Service at the presort discounts.

Similar to the contributions of those law enforcement officers that perform workers compensation fraud investigations on behalf of the Inspector General, these revenue investigation frequently result in administrative actions rather than criminal or civil proceedings.<sup>9</sup> This does not diminish the contributions of the investigative work; rather, the ultimate disposition of any matter is unknown at the onset of the investigation.

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<sup>9</sup> It should be noted that the majority of cases worked by OIG investigators resulted primarily in administrative actions.



May 11, 2010

Lucine M. Willis  
Director, Audit Operations  
Office of Inspector General

RE: SUPPLEMENTAL RESPONSE TO DRAFT AUDIT REPORT  
MOVE UPDATE PROGRAM AND INVESTIGATIONS  
(REPORT NUMBER SA-AR-10-DRAFT)

The following is Postal management's response to the non-monetary impact information contained in Appendix C of the above referenced draft audit report dated April 23, 2010.

**The Postal Service believes the calculation as presented may not be an appropriate measure of "revenue at risk". As described in our response to recommendation number two of the audit report, the MERLIN PBV sampling at acceptance and an Inspection Service Investigation are two different processes with very different outcomes.**

The methodology described in Appendix C of the report equates a MERLIN PBV failure with a determination that a mailer does not have an approved Move Update process in place. The MERLIN PBV was designed to evaluate Move Update compliance in a particular mailing, it was not designed to address whether a mailer has an approved Move Update process. Given that the MERLIN PBV was designed to evaluate a particular mailing rather than all the mailings of a customer, and the belief that from time to time a mailer may fail even though they have an approved process in place, we believe the model as proposed is flawed and may not be an appropriate measure of risk.

A handwritten signature in cursive script that reads "William R. Gilligan".

William R. Gilligan  
Chief Postal Inspector