



OFFICE OF **INSPECTOR GENERAL**

UNITED STATES POSTAL SERVICE

Approved Shippers Pricing and Customer Service

Audit Report

Report Number
SM-AR-16-008

May 31, 2016





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Highlights

Background

The Approved Shipper Program is a component of the Approved Postal Provider® Program, which gives U.S. Postal Service customers expanded access to Postal Service offerings, such as mailing packages and letters at non-postal locations. In fiscal year (FY) 2015, the Postal Service generated [REDACTED] from the Approved Shipper Program. As of October 2015, there were 7,860 approved shippers. The UPS Store®, Office Depot®, PostNet, and Staples® are the Postal Service's largest approved shippers, with 5,065 locations generating [REDACTED] in revenue during FY 2015.

Approved shippers must charge at least the Postal Service rate for packages but can apply surcharges for accepting mail on behalf of the Postal Service. In addition, the shippers must adhere to the Postal Service's customer service and safety requirements. A May 2015 U.S. Postal Service Office of Inspector General (OIG) audit report found that approved shippers did not always follow hazardous materials (HAZMAT) and other mail security requirements.

Our objectives were to determine whether approved shippers charged the correct postage when accepting Postal Service mail and assess their customer service standards. We also assessed whether approved shippers improved their adherence to mail security requirements. We conducted our testing at

129 of the four largest approved shipper locations. We did not assess all attributes at each location. Further, we conducted testing at an additional 16 locations to assess the proper handling of certified mail and non-flat rate postage pricing.

What The OIG Found

Approved shippers did not always charge the correct postage when accepting Postal Service mail and they need to improve their customer service. In addition, shippers are still not complying with mail security requirements.

Approved shippers did not always charge the correct postage for flat rate boxes. Clerks incorrectly quoted lower postage prices at 34 of 90 locations (38 percent) where we presented flat rate boxes. The clerks either quoted a price for the wrong type of flat rate box or priced the flat rate box by weight. Also, clerks at three of 16 approved shipper locations quoted postage prices lower than the Postal Service price for non-flat rate boxes.

Flat rate boxes that are priced below the correct mail category are considered shortpaid, resulting in a net revenue loss to the Postal Service. We calculated that the Postal Service did not realize about [REDACTED] in revenue during FY 2015 due to shortpaid flat rate boxes accepted by the four largest approved shippers.



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Approved shippers also need to improve their customer service:

- Clerks at 64 of 125 locations we visited (51 percent) did not provide correct information about customs declaration form requirements when mailing to Army Post Offices or Puerto Rico.
- Clerks at eight of nine locations where we evaluated certified mail services (88 percent) did not complete the required certified mail form correctly. Four of the nine (44 percent) did not enter the tracking number in their system.
- Clerks at 11 of 129 locations we visited (8.5 percent) made negative or incorrect statements regarding the Postal Service.

By making negative or inaccurate statements about the Postal Service and not following its policy for certified mail and customs forms, the approved shippers could be adversely affecting its brand. If customers do not receive high-quality service at approved shipper locations, they might be deterred from using the Postal Service in the future.

Further, approved shippers are still not following mail security requirements. Ninety of 125 locations visited (72 percent) were willing to accept packages with hazardous materials, such as

cologne, lighters, and aerosol sprays. Also, 22 of 129 locations (17 percent) did not secure the mail from public access. Accepting hazardous materials could result in a catastrophic event, potentially harming customers, employees, facilities, and operations. In addition, packages left unsecured could be stolen.

In response to our prior OIG report on approved shippers, Postal Service management established HAZMAT training requirements and approved shippers were responsible for certifying that their clerks were trained annually. However, there was no official test to determine clerks' level of understanding of the training and approved shippers did not have to re-certify after hiring staff. Additionally, in FY 2016 the Postal Service implemented a new program to improve customer satisfaction by measuring how clerks handle hazardous materials, but it does not focus on mail security or whether clerks apply correct postage to packages.

Without controls to test and verify approved shippers' knowledge, the Postal Service does not have oversight to ensure the clerks are knowledgeable about the Postal Service's products and services and understand the importance of its security requirements. We did note that, for 126 of 129 locations visited (97.7 percent), customer wait-time-in-line was 5 minutes or less, exceeding the Postal Service's goal of a wait-time-in-line of 5 minutes or less 87.5 percent of the time.



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What The OIG Recommended

We recommended management update approved shipper license agreements to include provisions for collecting lost revenue and assessing penalties for shortpaid packages; test approved shipper clerks' knowledge of Postal Service products, services, and HAZMAT requirements; and expand the Retail Customer Experience Program to address correct postage payment and mail security.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 31, 2016

MEMORANDUM FOR: KELLY SIGMON
VICE PRESIDENT, RETAIL AND CUSTOMER
SERVICE OPERATIONS

E-Signed by Keshia L. Trafton
VERIFY authenticity with Sign Desktop

FROM: Keshia L. Trafton
Acting Deputy Assistant Inspector General
for Supply Management and Human Resources

SUBJECT: Audit Report – Approved Shippers Pricing and
Customer Service (Report Number SM-AR-16-008)

This report presents the results of our self-initiated audit of Approved Shippers Pricing and Customer Service (Project Number 16BG001SM000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lucine Willis, acting director, Supply Management and Facilities, or me at 703-248-2100.

Attachment

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Findings

In FY 2015, the Postal Service generated [REDACTED] from the Approved Shipper Program. As of October 2015, there were 7,860 approved shippers, 5,065 of which were either The UPS Store®, Office Depot®, PostNet, or Staples®. In FY 2015, these four approved shippers generated [REDACTED] in revenue.

Introduction

This report presents the results of our self-initiated audit of Approved Shippers Pricing and Customer Service (Project Number 16BG001SM000) based on concerns raised by the American Postal Workers Union. Our objectives were to determine whether approved shippers charged the correct postage when accepting U.S. Postal Service mail and assess their customer service standards. We also assessed whether approved shippers' adherence to mail security requirements improved. See [Appendix A](#) for additional information about this audit.

The Approved Shipper Program is a component of the Approved Postal Provider® Program, which gives Postal Service customers expanded access to Postal Service offerings such as mailing packages and letters at non-postal locations. In fiscal year (FY) 2015, the Postal Service generated [REDACTED] from the Approved Shipper Program. As of October 2015, there were 7,860 approved shippers, 5,065 of which were either The UPS Store®, Office Depot®, PostNet, or Staples®. In FY 2015, these four approved shippers generated [REDACTED] in revenue.

Approved shippers must charge at least the Postal Service rate for packages; however, they can charge more for accepting mail on behalf of the Postal Service. Approved shippers purchase postage using a PC Postage¹ account that flows through the National Meters Accounts Tracking System (NMATS).² The NMATS creates daily reports of all transactions based on the postage categories that approved shippers select during each customer purchase. This revenue is then posted to Postal Service's general ledger accounts.

Approved shippers must also adhere to the Postal Service's customer service and safety requirements.³ The Postal Service requires that approved shippers be knowledgeable about Postal Service products and services, ask mail security questions when accepting mail, refuse packages if contents are unknown, and examine packages for mailability. A prior U.S. Postal Service Office of Inspector General (OIG) audit report⁴ found that approved shippers did not always follow hazardous materials (HAZMAT) and other mail security requirements.

Summary

Approved shippers did not always charge the correct postage when accepting Postal Service mail and they need to improve their customer service. In addition, shippers are still not complying with mail security requirements. We conducted our testing at 129 of the four largest approved shipper locations and assessed flat rate postage pricing, customer service standards, and mail security compliance. We did not assess all attributes at each location. Further, we conducted testing at an additional 16 locations to assess the proper handling of certified mail and non-flat rate postage pricing.

Approved shippers did not always charge the correct postage for flat rate boxes. Clerks incorrectly quoted lower postage prices for 34 of 90 (38 percent) flat rate boxes. They either quoted prices that did not correspond to particular types of flat rate boxes or priced the flat rate box by weight. Also, clerks at three of 16 approved shipper locations quoted prices lower than the Postal Service for non-flat rate boxes.

1 Identified as a postage evidencing system, which is a device or system of components a customer uses to print evidence that postage required for mailing has been paid.
2 A system that tracks the installation and setting of each postage evidencing system and keeps an accurate inventory of the location and settings of each system.
3 *Product Guide*, dated October 2013.
4 *Oversight of the Approved Shippers Program* (Report Number [SM-AR-15-004](#), dated May 26, 2015).

This occurred because some shippers wanted to offer customers the lowest postage rate, whether using flat rate or non-flat rate boxes and because clerks were not always knowledgeable about Postal Service requirements for flat rate boxes. The Postal Service considers a package shortpaid when the total postage and fees are less than the postage required for mailing. Shortpaid postage results in a net revenue loss to the Postal Service. We calculated that the Postal Service realized about [REDACTED] in lost revenue during FY 2015 due to shortpaid flat rate boxes accepted by the four largest approved shippers.

We calculated that the Postal Service realized about [REDACTED] in lost revenue during FY 2015 due to shortpaid flat rate boxes accepted by the four largest approved shippers.

Approved shippers also need to improve their customer service:

Source: OIG analysis.

Approved shippers also need to improve their customer service:

- Clerks at 64 of 125 locations (51 percent) we visited did not provide correct information about customs declaration form requirements when mailing to Army Post Offices (APO) or Puerto Rico.
- Clerks at eight of nine locations⁵ (88 percent) we visited did not complete the required certified mail form correctly and clerks at four of these nine locations (44 percent) did not enter the tracking number in their system.
- Clerks at 11 of 129 locations (8.5 percent) we visited made negative or incorrect statements regarding the Postal Service.

⁵ We conducted testing at an additional 16 locations to assess certified mail compliance. Six approved shipper locations did not offer the certified mail service and one location the system was down.

Accepting hazardous materials could result in a catastrophic event, potentially harming customers, employees, facilities, and operations. In addition, packages left unsecured could be stolen.

By making negative or inaccurate statements about the Postal Service and not following its policy for certified mail and customs forms, the Postal Service's approved shippers could be adversely affecting its brand. If customers do not receive high-quality customer service, they might be deterred from using the Postal Service in the future.

Further, approved shippers were still not following mail security requirements. Ninety of 125 locations visited (72 percent) were willing to accept packages containing HAZMAT, such as cologne, lighters, and aerosol sprays; and 22 of 129 locations (17 percent) did not secure the mail from public access. Packages were on top and in front of counters. This occurred because clerks were not always aware of current HAZMAT requirements or were willing to overlook the package contents. Accepting hazardous materials could result in a catastrophic event, potentially harming customers, employees, facilities, and operations. In addition, packages left unsecured could be stolen.

In response to our prior OIG report on approved shippers, Postal Service management established HAZMAT training requirements and approved shippers were responsible for certifying annual training of their clerks. However, no official test was administered to determine the clerks' level of understanding and approved shippers do not have to re-certify when new staff are hired. Additionally, in FY 2016, the Postal Service implemented the new Retail Customer Experience (RCE) Program to improve customer satisfaction. The program measures how clerks handle hazardous materials but does not focus on mail security or whether clerks applied the correct postage for packages.

Without controls to test and verify approved shippers' knowledge, the Postal Service does not have oversight to ensure approved shipper clerks comprehend the importance of the Postal Service's security requirements and are knowledgeable about its products and services.

We did note that for 126 of 129 locations visited (97.7 percent), customer wait-time-in-line (WTIL) was 5 minutes or less. This exceeded the Postal Service's goal of a WTIL of 5 minutes or less 87.5 percent of the time.

We did not assess all attributes at each location. See [Appendix B](#) for the detailed results of each approved shipper location.

Postage Pricing

Approved shippers did not always charge customers the correct postage when presenting packages. Specifically, for 37 of 106 packages (37 percent), the postage was incorrectly charged or charged to the wrong mail category, or the packages were weighed incorrectly. This occurred for both flat rate and non-flat rate boxes presented at approved shipper locations.

Flat Rate Postage

Approved shippers did not always charge the correct postage for flat rate boxes. Specifically, for 34 of 90⁶ approved shipper locations visited (38 percent), clerks incorrectly quoted an amount lower than the flat rate postage price (see [Table 1](#)).

6 Thirty-eight The UPS Store locations and one PostNet location did not offer flat rate services.

When approved shipper clerks do not charge the correct mail category, resulting in a lower postage amount, this creates a shortpaid package because the Postal Service does not receive the correct amount of revenue for the package shipped.

Table 1. Incorrect Flat Rate Postage by Approved Shipper

Approved Shippers	Number of Locations Visited	Number of Locations That Quoted Incorrect Postage	Percent of Locations That Quoted Incorrect Postage	Gross Revenue Loss to Postal Service
Shipper 1	23	4	17%	██████
Shipper 2	3	1	33%	██████
Shipper 3	21	12	57%	██████
Shipper 4	43	17	40%	██████
Totals	90	34	38%	██████

Source: OIG analysis.

The goal of some approved shipper clerks was to offer customers the lowest postage rate for packages even though flat rate boxes were presented and they cost more to ship than non-flat rate boxes in certain instances. For example, we asked one clerk why she charged less than flat rate and she replied, “Well, you paid the lowest price!” Also, clerks were not always knowledgeable about the requirements for the various postage services that the Postal Service offers.

The Postal Service’s policy for flat rate boxes is to charge the appropriate mail category based on the size of the box, regardless of its weight or domestic destination. When approved shipper clerks do not charge the correct mail category, resulting in a lower postage amount, this creates a shortpaid package because the Postal Service does not receive the correct amount of revenue for the package shipped.⁷ This results in a net revenue loss to the Postal Service. We calculated \$10,090,459 in lost revenue during FY 2015, due to shortpaid flat rate boxes being processed by the four largest approved shippers.

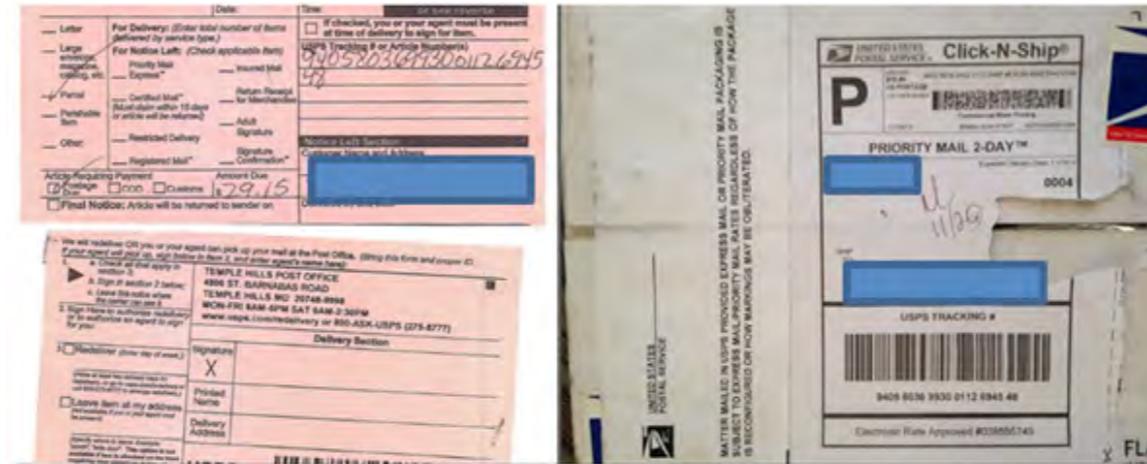
The Postal Service uses manual and automated processes to detect and verify revenue deficiencies for mailpieces with shortpaid or unpaid postage found in the mailstream;⁸ however, these controls are inadequate. We mailed 20 shortpaid packages and the Postal Service processed and delivered all 20 without collecting the shortpaid revenue. For example:

- A package mailed in a Priority Mail Express™ (PME) flat rate box costing \$44.95 was charged at the Priority Mail® large flat rate price of \$15.80, a difference of \$29.15 (65 percent). The package was flagged with a postage due notification and delivered the following day with the Express logo covered. The recipient did not have to pay the outstanding amount (see [Figure 1](#)).

⁷ *Domestic Mail Manual*, Section 604.4.4, July 2014.

⁸ Delivering the mailpiece to the addressee and collecting the revenue deficiency as postage due, collecting the revenue deficiency from the sender, or returning the mailpiece to the sender.

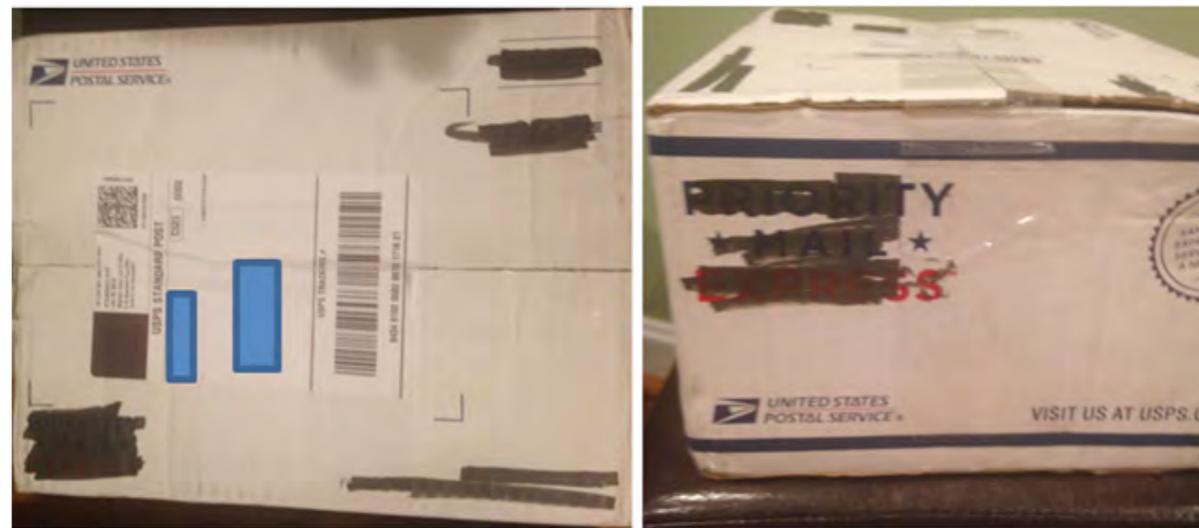
Figure 1. Postage Due Notification for Delivered Package



Source: OIG shipped packages.

- A package mailed in a PME flat rate box costing \$44.95 was charged at a weighted price of \$14.33, a difference of \$30.62 (68 percent). The package was delivered with the flat rate logo blacked out with a marker (see Figure 2).

Figure 2. Postage Due Flat Rate Package



Source: OIG shipped packages.

Non-Flat Rate Postage

Approved shippers did not always accurately calculate the correct postage for non-flat rate boxes. Specifically, we presented 16 non-flat rate boxes at approved shippers and post offices in the same ZIP Code to determine whether the same rate for identical packages mailed using the Priority Mail service would be charged at both the approved shipper and the Post Office.

At three of 16⁹ approved shipper locations (19 percent), clerks quoted a lower price for Priority Mail than the Post Office quoted for the same package, in the same ZIP Code, being mailed to the same destination. In these instances, the approved shipper clerks quoted Priority Mail small flat rate box prices for the non-flat rate boxes presented, which was lower than the correct weighted price.

⁹ Two packages had weight discrepancies of less than 1 ounce each, which did not affect the price.

The Postal Service plans to establish an automated approach in FY 2017 to maximize recovery and deterrence of postage discrepancies. This approach will increase recovery of shortpaid revenue, enhance customer experience for both the sender and receiver, and lower manual administration costs for the Postal Service.

Approved shipper clerks charging less than the correct postage creates a shortpaid package and the Postal Service receives insufficient revenue for the package.

For FY 2015, the Postal Service estimated [REDACTED] in shortpaid revenue. Recognizing these losses, the Postal Service plans to establish an automated approach in FY 2017 to maximize recovery and deterrence of postage discrepancies. This approach will increase recovery of shortpaid revenue, enhance customer experience for both the sender and receiver, and lower manual administration costs for the Postal Service. Although the Postal Service continues to address revenue protection through technological initiatives, revenue leakage will still occur until these automated verification procedures are implemented.

Customer Service

Approved shippers did not always follow the mailing requirements for customs declaration forms or certified mail and some approved shippers made false statements about the Postal Service. However, approved shippers usually accepted packages in 5 minutes or less.

Customs Declaration Form Requirements

Approved shipper clerks were not always knowledgeable about the required forms for shipping packages to Puerto Rico or APOs. Specifically, 55¹⁰ of 123¹¹ (44.7 percent) did not provide the correct information on when to use customs declaration forms when mailing a package domestically to Puerto Rico. Some clerks incorrectly stated that a customs declaration form was required to ship to Puerto Rico. Clerks were not always aware that Puerto Rico is a territory of the U.S. and did not require a customs declaration form.

Further, 27 of 113¹² clerks (24 percent) did not provide the correct information for using customs declaration forms when mailing a package to an APO address.¹³ Some clerks stated that they did not know the requirements for shipping to APO addresses while other clerks stated that there was no need for a customs declaration form. APO addresses are considered domestic mailings but require a customs declaration form. Postal Service policy¹⁴ states that a customs declaration form must be applied to a mailpiece sent to an APO address if it weighs at least 16 ounces or contains goods.

Approved shippers are responsible for certifying that all their clerks are trained annually; however, the current training material is mainly focused on hazardous materials and no official test is administered to determine the clerk's level of understanding. Additionally, the Postal Service does not know whether newly hired clerks are trained on mail requirements. An individual automated process will increase Postal Service oversight of approved shipper clerks' comprehension of training material and allow the Postal Service to track individual certifications.

¹⁰ Eighteen approved shippers did not know the requirements for both APO and Puerto Rico mailings.

¹¹ Four Staples and two The UPS Stores were not asked about shipping packages to Puerto Rico.

¹² Seven Staples, seven The UPS Store, and four Office Depot stores were not asked about shipping to APO addresses.

¹³ Either customs declaration Postal Service (PS) Form 2976, *USPS Customs Declaration – CN22*; PS Form 2976-A, *United States Postal Service Customs Declaration and Dispatch Note – CP72*; or PS Form 2976-B, *Priority Mail Express International Shipping Label and Customs Form*; must be applied to mailpieces sent to APO addresses.

¹⁴ *Domestic Mail Manual*, Section 2.3.7, updated March 7, 2016.

A clerk at another location said, “the Postal Service may lose packages and does not offer tracking.” The Postal Service does, in fact, offer tracking services for Priority Mail packages and the service is advertised on USPS.com.

Certified Mail

Approved shippers did not always follow the policy when handling certified mail. We visited 16 approved shipper locations to determine their handling of certified mail and six of them (37.5 percent) did not offer this service. Also, at one location the approved shipper’s system was down; therefore, we did not conduct testing. Of the nine approved shippers that offered the service, four (or 44 percent) did not enter the certified mail tracking number in their system.

Approved shippers do not have the point-of-sale system that the Postal Service uses; consequently, certified mail would not be reflected in the Postal Service system until it is collected and entered into the mailstream.¹⁵ Therefore, approved shippers should scan or manually enter certified mail tracking numbers into the approved shippers’ system so that the information is properly reflected on the receipt provided to the customer.

In addition, eight of nine clerks (88 percent) did not complete the required PS Form 3800 correctly. Specifically, clerks did not postmark the form to acknowledge acceptance of the mail and two clerks did not detach the PS Form 3800 receipt and give it to the customer. As a result, we did not have the certified tracking number to track the mail or have proof of acceptance.

Postal Service policy¹⁶ states that a customer who requests certified mail should complete and attach the certificate mail receipt to the address side of the package. The package is then presented to the Postal Service employee, who dates the receipt to show when the mail was accepted. If the customer asks, the clerk should include the time the mail was accepted on the customer’s receipt. Otherwise, the clerk may attach the certified mail form to the mailpiece, detach the receipt, and mark the receipt to show the date mailed.

Postal Service Branding

Of 129 approved shippers, 118 (91.5 percent) recommended the Postal Service for shipping when asked; however, at 11 shipper locations (8.5 percent), the clerks made negative and incorrect statements regarding the Postal Service. For instance, one clerk stated, “it is crazy at the Post Office and it is better to mail it through our location.” A clerk at another location said, “the Postal Service may lose packages and does not offer tracking.” The Postal Service does, in fact, offer tracking services for Priority Mail packages and the service is advertised on USPS.com.

Furthermore, two locations had flat rate boxes on display but stated they did not offer flat rate box service. At one location, the clerk stated that Postal Service flat rate boxes were on display to demonstrate that prices for their shipping services were lower than what the Postal Service offered for shipping but this is a misconception. The prices that the approved shipper advertised for Postal Service products reflected a surcharge the approved shipper applied and could ultimately deter the customer from using Postal Service product offerings.

Making inaccurate statements or creating false advertisements about the Postal Service could adversely impact the Postal Service’s brand. Additionally, if customers do not receive high-quality customer service they might be deterred from using the Postal Service in the future.

¹⁵ We noted one of the four mailpieces tested was not available for tracking on USPS.com after collection by the Postal Service carrier.

¹⁶ *Domestic Mail Manual*, Section 503.3.2.

Wait Time in Line

Approved shippers provided high-quality customer service with regard to WTIL. We determined the WTIL at 126 of 129 approved shipper locations visited (97.7 percent) was 5 minutes or less. The Postal Service created the WTIL initiative to keep customer wait time at a minimum, while providing quality customer service. The goal is a WTIL of 5 minutes or less 87.5 percent of the time. For the first quarter of FY 2015, the Postal Service's national average WTIL was 85 percent.

Mail Security

Approved shippers are still not always following mail security requirements. Ninety of 125 locations visited (72 percent) were willing to accept packages with hazardous materials and 22 of 129 locations (17 percent) did not secure mail from public access.

Hazardous Materials

Approved shippers did not always follow HAZMAT guidelines when accepting mail from customers. Specifically, 90 of 125 locations (72 percent)¹⁷ were willing to accept packages with hazardous materials. See Table 2 for approved shipper details.

Table 2. Approved Shipper Locations Willing to Accept Hazardous Material

Approved Shippers	Locations Tested for Hazardous Materials	Locations Willing to Accept Hazardous Materials	Percentage	Gross Revenue Loss to Postal Service
Shipper 1	23	4	17%	██████
Shipper 2	4	3	75.0%	██████
Shipper 3	18	11	61.1%	██████
Shipper 4	81	59	72.8%	██████
Totals	125	90	72.0%	██████

Source: OIG analysis.

The hazardous materials included in our test packages were lighters, cologne, and aerosol sprays. In all instances, the packages were opened for view and the clerks were made aware of the contents yet were still willing to accept the package.¹⁸ Clerks were not always aware of HAZMAT requirements or overlooked the contents of the package stating, "they are not that dangerous." Postal Service policy prohibits the mailing of cologne, tobacco products, and aerosols.¹⁹

Although the Postal Service has current and downloadable HAZMAT information available on its website, an outdated version²⁰ of Postal Service Poster 138, *Keeping the Mail Safe*, was on display and used to inform customers of HAZMAT requirements at an approved shipper location (see [Figure 3](#)). The most current version of this poster is dated August 2014.

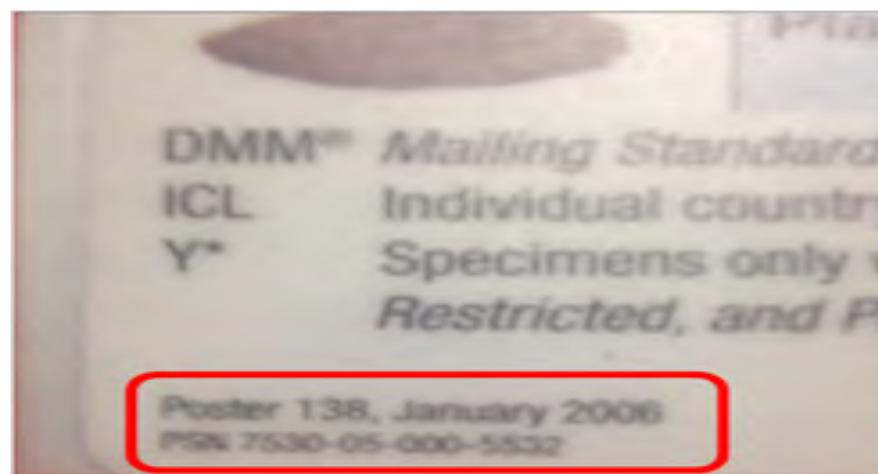
¹⁷ Four shipper locations were not asked to ship hazardous materials.

¹⁸ We excluded any HAZMAT materials before allowing packages to be placed into the mailstream.

¹⁹ Publication 52, *Hazardous, Restricted, & Perishable Mail*, effective February 19, 2015.

²⁰ Dated January 2006.

Figure 3. Outdated Hazardous, Restricted, and Perishable Materials Poster



Source: OIG observation.

The approved shipper license agreement states that a copy of HAZMAT procedures must be accessible at all times to all employees who accept letters and packages. In a prior OIG audit, we determined that approved shippers did not always adhere to mail security requirements. Specifically, 82 percent of the approved shipper locations we reviewed were willing to or did accept packages without knowing the contents, thus violating HAZMAT procedures.²¹ We recommended the Postal Service establish training requirements and certification instructions relating to mail security for both retail partners and host administrative offices. The Postal Service implemented the recommendation to certify all approved shippers, but the training does not require an official test to determine the clerks' knowledge of the studied areas and the issues.

Approved shippers agreed to abide by the Postal Service's HAZMAT acceptance procedures outlined in their agreements. These procedures require approved shippers to ask mail security questions, refuse packages if contents are unknown, and examine packages for mailability. The Postal Service has procedures for the safe acceptance, handling, and delivery of hazardous materials to protect the health and safety of Postal Service employees and the public.²² Accepting hazardous materials could result in a catastrophic event and could be harmful to customers, employees, facilities, and operations.

²¹ *Oversight of the Approved Shippers Program* (Report Number [SM-AR-15-004](#), dated May 26, 2015).

²² Hazardous material is any article or substance the U.S. Department of Transportation designates as being capable of posing an unreasonable risk to health, safety, and property during transportation.

Securing of Mail from Public Access

Approved shippers did not always secure mail from public access. Specifically, 22 of 129 shippers (17 percent) had mail packages on top and in front of the counters, leaving the mail unsecured and at risk. This occurred because they did not understand the importance of mail security. We observed that the issue surrounding mail security has increased 9 percent over prior OIG²³ audit results. Approved shippers are required to store items in a secure area, such as a back room or behind a counter away from “public” areas. Packages left unsecured could risk the integrity of the mail and be stolen or tampered with.

In FY 2016, the Retail and Customer Service Operations Department implemented the new RCE Program, which uses a diagnostic tool used to improve customer satisfaction. Individuals under contract to the Postal Service pose as customers, visit post offices and alternative access locations, and document their experience by answering a standardized questionnaire. This questionnaire covers specific topics such as hazardous materials, overall customer satisfaction, and interior and exterior appearance; however, it does not test clerks’ knowledge of correct postage for packages presented or mail security requirements. Including these items on the questionnaire would identify approved shippers that require additional training and strengthen the Approved Shipper Program.

²³ *Oversight of the Approved Shippers Program* (Report Number [SM-AR-15-004](#), dated May 26, 2015).

Recommendations

We recommend the vice president, Retail and Customer Service Operations:

1. Update the license agreement to require the collection of lost revenue and assess penalties from approved shippers when shortpaid packages are identified in the mailstream.
2. Implement an individualized automated training and certification process at approved shipper locations. This should include testing to determine each clerk's level of understanding of U.S. Postal Service products, services, and hazardous materials.
3. Expand the Retail Customer Experience questionnaire to include questions about postage payment and mail security.

Management's Comments

Management did not agree with some of the findings. They partially agreed with recommendation 3, but disagreed with recommendations 1 and 2 and the monetary impact of [REDACTED].

Regarding recommendation 1, management stated they are already pursuing an effective means of collecting lost revenue by implementing the Electronic Shortpaid Assessment System (eSAS), which will identify shortpaid pieces and initiate a process for collecting monies for the difference. The Postal Service will implement this system in FY 2017 and, as an interim measure, will continue to educate approved shippers with product knowledge.

Regarding recommendation 2, management stated they have taken measures to ensure that approved shipper employees are knowledgeable about Postal Service products and services and handling hazardous materials. They already have a process in place for training shippers and certifying approved shipper locations; and are expanding the training to include dangerous goods and export compliance, Postal Service products and services, and approved shipper tip sheets. Management also stated that approved shippers will continue to be responsible for training their employees and certifying that their sites have met the training requirements.

Regarding recommendation 3, management agreed to expand RCE components at approved shipper locations to measure mail security compliance; however, they will address the shortpaid issue through the eSAS program. The target implementation date is September 30, 2016.

Management disagreed with the OIG's analysis for determining the monetary impact of flat rate sales on the Postal Service. Although they agreed with the OIG's concept of using information from the four largest approved shippers as the basis for its analysis, they did not concur with the assumption that all revenue generated at these sites comes from flat rate sales. Management asserted that in FY 2015, Flat Rate Priority Express Mail and Flat Rate Priority Mail sales for the top four partners represented less than 20 percent of their total sales — not 100 percent as assumed in the OIG's calculations.

Management further stated that had the OIG factored in all misquoted/or mis-charged fees from the 34 of 90 sites visited, the shortage would have been far less than what the OIG stated. Based on these differences, management contends the OIG monetary impact is overstated by more than 650 percent due to flawed analysis.

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

Evaluation of Management's Comments

The OIG considers management's comments partially responsive to recommendation 3 and the corrective action, in part, should resolve the issue identified. We consider management's comments unresponsive to recommendations 1 and 2.

Regarding recommendation 1, management will not implement the eSAS program until FY 2017. While the interim measure to educate approved shippers with Postal Service product knowledge will be useful, it will not allow the Postal Service to capture any lost revenue until it implements the eSAS program.

Regarding recommendation 2, we continue to believe that the Postal Service is at an increased risk for revenue leakage and having approved shipper clerks accept hazardous materials if they are not individually tested on their knowledge of Postal Service products, services, and hazardous materials. Further, although management stated they were expanding the training to include these issues, they did not state when they would be providing this new training to the approved shippers for dissemination to their clerks.

Regarding recommendation 3, management's expansion of the RCE components to measure mail security compliance should help mitigate the mail security issues noted in our report. However, by not including postage payment questions in the RCE, the Postal Service will not have real-time knowledge of approved shipper clerks that need additional training. Shortpaid packages that have entered the mailstream could negatively impact customer experience for both the sender and receiver. Further, as previously stated, we believe revenue leakage will continue to occur until the Postal Service fully implements eSAS.

We calculated the monetary impact based on revenue lost due to shortpaid packages entering the mailstream and being delivered without any collection of revenue or penalties from the four approved shippers. We identified errors in multiple mail categories at approved shipper locations; however, our calculation for revenue loss only included transactions for flat rate packages in FY 2015 and was based on 90 statistically sampled locations, 34 of which (38 percent) did not charge the correct postage for the packages. We also judgmentally sampled 16 locations to assess other mail categories and found that three of them (19 percent) also did not charge the correct postage when accepting non-flat rate packages. We revised our calculation in the report to reflect projected lost revenue from the Priority Mail and Priority Mail Express mail categories, reducing our original monetary impact from [REDACTED].

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. Recommendation 3 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed. We view the disagreements on recommendations 1 and 2 as unresolved but do not plan to pursue them through the formal audit resolution process; therefore, we consider recommendations 1 and 2 closed, but not implemented with the issuance of this report.

Appendices

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Appendix A: Additional Information

Background

The Approved Postal Provider® Program makes it more convenient for customers to mail letters or ship packages by offering these services at alternate, non-postal locations near where people live, work, and shop. Approved Shipper, Contract Postal Unit, and Stamps to Go® are all part of the program.

Approved shippers are private retailers with a packaging and shipping operation – they may provide the shipping products and services of the Postal Service and its competitors (for example, FedEx® and The UPS Store). In FY 2015, the Approved Shipper Program generated over ██████████ in revenue for the Postal Service by offering additional hours to customers and expanding the customer's access to Postal Service offerings. As of October 2015, the Postal Service had 7,860 approved shippers across the U.S. Approved shippers are not compensated by the Postal Service; rather, they receive pricing discounts for postal products and may apply a surcharge to established retail prices to generate profits.

Commercial Plus pricing²⁴ is a pricing discount granted to high volume²⁵ shippers. The UPS Store, Office Depot, PostNet, and Staples, which accounted for 5,065 of all approved shipper locations, receive the Commercial Plus pricing discount based solely on volume. Further, approved shippers enter into licensing agreements that allow them to display postal signage promoting postal products and services. Additionally, the agreement requires the approved shipper to abide by the Postal Service's HAZMAT acceptance procedures,²⁶ read and comply with the current *Product Guide*,²⁷ and update a Postal Service representative within 15 business days of any change to the Postal Service product or service offerings at its location.

In May 2015, the OIG issued an audit report²⁸ assessing the oversight of the Approved Shippers Program. The audit found the Postal Service could improve oversight of the program and determined that approved shippers did not always meet mail security requirements. Specifically, 76 percent did not ask the required mail security questions, 82 percent were willing to or did accept packages without knowing the contents, and 8 percent did not secure mail from public view and access. Because of the audit, the Postal Service set forth training requirements and certification instructions for both the retail partner and host administration office relating to the security of the mail and intends to conduct the certification on a bi-annual basis.

The Approved Shipper Program addresses the Postal Service's Delivering Results, Innovation, Value, and Efficiency (DRIVE) initiatives, which seek to help the Postal Service improve business performance at an accelerated pace to operate successfully in today's competitive and challenging marketplace. Specifically, the Optimize Retail Platform DRIVE initiative seeks to leverage market and customer insights that will optimize retail channels and access points, simplify retail products and services, and enhance the customer experience.²⁹

24 Commercial Plus pricing is a program that provides highly discounted postage rates for high volume shippers.

25 Commits to ship at least 100,000 packages, flats and/or letters using the Postal Service's Priority Mail service or 600 Priority Mail Open and Distribute sacks during the 12 months.

26 Publication 52, *Hazardous, Restricted, and Perishable Mail*, dated February 19, 2015.

27 *Product Guide*, dated October 2013.

28 *Oversight of the Approved Shippers Program* (Report Number [SM-AR-15-004](#), dated May 26, 2015).

29 DRIVE Initiative 3 – Transform Access.

Objectives, Scope, and Methodology

Our objectives were to determine whether approved shippers charged correct postage when accepting Postal Service mail and assess their customer service standards. We also assessed whether approved shippers adherence to mail security requirements had improved.

To accomplish our objectives, we:

Tested packages at 129 statistically selected approved shippers in all seven Postal Service areas including The UPS Store (81), Office Depot (23), Staples (21), and PostNet (4) to determine whether:

- Approved shippers charged the correct postage for flat rate boxes.
- Flat rate boxes were displayed at locations that did not offer the service.
- Approved shipper employees were willing to accept packages with hazardous materials.
- Approved shipper employees knew the mailing requirements for APOs and Puerto Rico.
- Approved shipper employees were readily available to assist customers and calculated the WTIL to receive customer service.
- Approved shipper employees promoted, redirected, or spoke negatively about the Postal Service.
- Mail was secured behind the counter and out of reach of customers.

We judgmentally selected 16 approved shipper locations in three Postal Service areas, including The UPS Store (4), Office Depot (4), Staples (4), and PostNet (4), to determine whether:

- Approved shippers charged the correct postage for non-flat rate boxes.
- Approved shippers properly processed certified mail PS Form 3800.

We conducted this performance audit from October 2015 through May 2016, 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 that 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 on April 15, 2016, and included their comments where appropriate.

We did not specifically test the NMATS but obtained an understanding of the system's controls from management knowledgeable about it. We also verified that revenue data from the four largest approved shippers was included in the system. Further, we verified the accuracy of the Postal Service list of approved shipper locations by selecting a sample and conducting site visits. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Oversight of the Approved Shipper Program</i>	SM-AR-15-004	5/26/2015	\$53
<p>Report Results: Our report found that the Postal Service could improve oversight of the Approved Shipper Program. Specifically, the Postal Service did not conduct quarterly performance reviews as required, the shippers did not always adhere to mail security and signage requirements, the Staples agreement was consistent with other approved shipper agreements and included provisions to protect the Postal Service and increase customer access to its products and services. The OIG recommended that the Postal Service develop formal policies and procedures for overseeing the Approved Shipper Program including roles, responsibilities, and a verification process for performing reviews of approved shippers. Management agreed with the recommendation.</p>			
<i>Shortpaid Postage – Information- Based Indicia Packages, Southern Area</i>	MS-AR-13-011	9/17/2013	\$52
<p>Report Results: Our report found that the Southern Area’s processes for detecting Information-Based Indicia (IBI) package shortpaid postage were not effective. Specifically, we identified a systemic pattern of shortpaid IBI packages in the districts visited, involving both small and large mailers. In the absence of a fully functioning automated solution and national guidance on manual verification procedures, the Southern Area did not have a comprehensive strategy for identifying and reducing shortpaid postage. The OIG recommended the Postal Service develop a strategy to identify shortpaid packages, which could include establishing goals, roles, and responsibilities for identifying shortpaid postage; assigning and training personnel to identify shortpaid postage; and enhancing coordination with the U.S. Postal Inspection Service. Management agreed with the recommendation.</p>			

Appendix B: Results of Approved Shippers' Locations Visited

Site Visit	Incorrect Quoted Postage Note 1	Short-paid Note 2	Customs Declaration Forms Note 3		Postal Service Branding Note 4	WTIL Note 5	HAZMAT Note 6	Mail Security Note 7
			Puerto Rico	APO				
1								
2	X	X	X	X			X	
3	X							
4				X				
5								
6	X							X
7	X	X	X				X	
8	X	X	X					
9	X	X					X	
10	X	X	X	X			X	
11	X	X				X	X	
12	X	X					X	
13	X		X			X	X	
14	X	X		X			X	
15	X	X	X				X	X
16					X		X	
17	X	X					X	
18	X	X			X		X	
19			X	X				
20					X		X	X
21								
22							X	
23			X				X	
24			X				X	
25	X	X	X				X	
26								
27			X					
28							X	

Site Visit	Incorrect Quoted Postage Note 1	Short-paid Note 2	Customs Declaration Forms Note 3		Postal Service Branding Note 4	WTIL Note 5	HAZMAT Note 6	Mail Security Note 7
			Puerto Rico	APO				
			29	X				
30							X	
31							X	
32							X	
33				X				
34	X		X				X	
35	X						X	
36			X				X	
37				X				
38				X				
39			X					
40				X			X	
41	X	X	X	X			X	
42	X		X	X			X	X
43	X	X	X					
44			X					
45								
46	X						X	X
47	X	X	X					
48			X					
49								
50			X	X				X
51					X			X
52	X	X	X				X	
53				X			X	
54								X
55							X	
56			X				X	X

Site Visit	Incorrect Quoted Postage Note 1	Short-paid Note 2	Customs Declaration Forms Note 3		Postal Service Branding Note 4	WTIL Note 5	HAZMAT Note 6	Mail Security Note 7
			Puerto Rico	APO				
57								
58			X			X	X	
59	X		X				X	X
60	X		X		X		X	
61								
62								
63			X	X			X	
64			X				X	
65			X	X			X	
66	X		X	X	X		X	
67			X	X			X	
68				X				
69								X
70							X	
71			X	X			X	
72							X	X
73							X	
74	X						X	X
75							X	X
76			X				X	X
77	X						X	X
78							X	X
79			X				X	X
80							X	
81			X				X	X
82							X	
83			X	X				
84							X	

Site Visit	Incorrect Quoted Postage Note 1	Short-paid Note 2	Customs Declaration Forms Note 3		Postal Service Branding Note 4	WTIL Note 5	HAZMAT Note 6	Mail Security Note 7
			Puerto Rico	APO				
85							X	
86			X				X	
87			X				X	
88			X				X	
89			X				X	
90	X	X	X	X			X	
91			X	X			X	
92			X	X			X	
93	X	X	X	X			X	
94	X	X	X				X	
95					X			
96	X		X				X	
97			X				X	
98			X				X	
99							X	
100			X				X	
101							X	
102			X	X			X	
103							X	
104			X				X	
105								
106								
107				X				
108					X		X	
109							X	
110			X					
111								
112								X

Site Visit	Incorrect Quoted Postage Note 1	Short-paid Note 2	Customs Declaration Forms Note 3		Postal Service Branding Note 4	WTIL Note 5	HAZMAT Note 6	Mail Security Note 7
			Puerto Rico	APO				
			113					
114			X					
115								
116					X		X	
117							X	
118							X	
119					X		X	
120								
121	X						X	
122							X	
123							X	
124							X	
125							X	X
126							X	
127							X	
128							X	
129			X				X	X

Source: OIG research at 129 approved shipper locations from October 2015 to January 2016.

Explanatory Notes:

1. Approved shippers quoted the incorrect postage.
2. Approved shippers with shortpaid packages.
3. Approved shippers were not knowledgeable customs declaration forms for Puerto Rico or APO.
4. Approved shippers made inaccurate statements about the Postal Service.
5. Approved shippers visited WTIL was in excess of 5 minutes.
6. Approved shippers were willing to accept HAZMAT.
7. Approved shippers with unsecured mail.

Appendix C: Management's Comments

KELLY M. SIGMON
VICE PRESIDENT, RETAIL AND CUSTOMER SERVICE OPERATIONS



May 13, 2016

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Approved Shippers Pricing and
Customer Service (Report Number SM-AR-16-DRAFT)

While the Postal Service agrees in maintaining a continued diligence in the oversight of Postal pricing and customer service at its Approved Shipper locations, we do not agree with some of the fundamental findings addressed in the OIG report.

The Postal Service disagrees with the analysis developed by the OIG to determine the monetary impact to the Postal Service and the over-statement of "At-risk" revenue from Flat Rate sales. Although the Postal Service agrees with the OIG's concept of utilizing information from the four largest Approved Shippers as the basis for its analysis, it does not concur with the assumption that all revenue generated at these sites comes from Flat Rate sales. In fact, in FY15, Flat Rate Priority Express Mail sales and Flat Rate Priority Mail sales accounted for only [REDACTED] of the [REDACTED] in revenue generated at the top four partners. This represents less than 20% of their total sales – not 100% as assumed in the OIG's calculations and as reported on the Monetary Impact Report. Had this factor been taken into consideration, the resulting impact to the Postal Service would have proven to be significantly less.

The report likewise references 34 of the 90 sites visited as having either misquoted/or mis-charged Postal prices and ultimately showing a combined shortage in revenue of [REDACTED]. In actuality, had all fees collected/quoted been factored in from the 34 sites, the resulting shortage would have been far less--only [REDACTED] and not the [REDACTED] as the OIG states.

Based upon these differences alone, the Postal Service contends that the OIG Monetary Impact Report is over-stated by more than 650% due to flawed analysis.

The Postal Service is also concerned with the small and inconsistent sampling sizes used by the OIG to formulate its assumptions. Although 129 Approved Shippers were visited during the audit, the sampling represents only 1.5% of all Approved Shippers. During the audit of 129 locations, the OIG did not assess the same attributes at all locations – adding further questions relating to the consistency of data analyzed. For example, some attributes were tested at all 129 sites. For other elements, the data fields dropped to as low as just 9 sites analyzed or approximately 0.1% of all Approved Shipper locations. It is questionable that these findings were representative of all Approved Shippers.

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The Postal Service likewise has concerns regarding the customer service deficits highlighted by the OIG. Approved Shippers are not contractually obligated to offer all products and services. In addition, Approved Shippers are not permitted to maintain a cancellation device on site for postmarking receipts. While the OIG was quick to note that verbally quizzed Approved Shipper employees did not always respond correctly on customs forms used for Puerto Rico or APO destinations, they failed to mention that Approved Shipper retail technology would have properly prompted these employees during an actual transaction. Although some of these nuances were footnoted by the OIG, others were not - leaving the impression that those reporting the results may not have been fully aware of the product and service elements differentiating an Approved Shipper location from a full service Post Office or Contract Postal Unit.

Despite the enumerated differences, the Postal Service approaches each recommendation provided by the OIG as an opportunity to improve service for its customers and as a chance to strengthen the relationships with its partners. It is fully committed to doing both.

Recommendation #1:

Update the license agreement to require the collection of lost revenue and assess penalties from Approved Shippers when short paid packages are identified in the mail stream.

Management Response/Action Plan:

The Postal Service disagrees with updating the license agreement. The Postal Service is already in pursuit of an effective means of collecting these revenues with the implementation of the Electronic short paid assessment system (eSAS) system. This system will identify short paid pieces and initiate a process for collecting monies through the appropriate PC Postage Vendor for the difference. As an interim measure, the Postal Service will continue to educate the Approved Shippers with product knowledge information.

Recommendation #2:

Implement an individualized automated training and certification process at approved shipper locations. This should include testing to determine each clerk's level of U.S. Postal Service products, services, and hazardous materials.

Management Response/Action Plan:

The Postal Service disagrees with the recommendation to create a testing requirement for Approved Shipper employees. The Postal Service has taken and continues to take measures to ensure that Approved Shipper employees are knowledgeable on Postal products and services and the handling of hazardous materials.

The Postal Service already has a process in place for the training and certification of Approved Shipper locations. As was shared earlier, the Postal Service is expanding the training to include: Dangerous Goods and Export Compliance, Postal Products and Services and Approved Shipper tip sheets. Approved Shippers will continue to be responsible for training their employees and certifying that their sites have met the training requirements.

Recommendation #3:

Expand the Retail Customer Experience questionnaire to include questions about postage payment and mail security.

Management Response/Action Plan:

The Postal Service agrees to expand the RCE components at Approved Shipper locations to measure mail security compliance. The short paid issue will be addressed with the eSAS program.

Target Implementation Date:

September 30, 2016

Responsible Official:

Vice President Retail and Customer Service Operations

Sincerely,



Kelly M. Sigmon
Vice President
Retail and Customer Service Operations

Cc: D. Williams
CARM



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**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

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