

OFFICE OF INSPECTOR GENERAL UNITED STATES POSTAL SERVICE

Political and Election Mail Sales

Audit Report

June 19, 2013

Report Number MS-AR-13-008



OFFICE OF INSPECTOR GENERAL UNITED STATES POSTAL SERVICE



BACKGROUND:

The U.S. Postal Service plays a vital role in the American democratic process by ensuring that voters receive political campaign materials and official election mail, such as absentee ballots and registration information in a timely manner. Given the Postal Service's financial condition and its limited influence over states' use of the vote-bymail process, it directs its efforts toward increasing political campaign mail revenue.

To increase the sale of political campaign mail, the Postal Service implemented a specialized sales team during the 2012 general election cycle. The Postal Service generated \$508 million of political mail revenue during the 2012 general election. This was an increase of 123 percent over the 2008 general election, and a 50 percent increase over the 2010 general election.

Our objective was to evaluate opportunities for the Postal Service to enhance and increase political and election mail revenue.

WHAT THE OIG FOUND:

Additional opportunities exist for the Postal Service to increase political mail revenue. The Postal Service has limited ability to influence state and local election officials in adopting a 100percent vote-by-mail process. However, June 19, 2013

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nonballot election mail, such as absentee request forms, may provide opportunities for increased sales of about \$1.2 million and revenue in the next general election by addressing citizen groups that are eligible to vote but not yet registered.

In addition, the Postal Service could further explore providing Internet voting to enhance its ability to serve the public and moving into the digital communication market. The Postal Service is working on requirements for a platform to facilitate digital authentication. This may provide an opportunity for the Postal Service to expand its digital offerings and set the stage for Internet voting, which could better position the Postal Service's relevance and brand in the future and may impact future revenue.

WHAT THE OIG RECOMMENDED:

We recommended the Postal Service develop a strategy to increase the sale of nonballot election mail products to citizen groups who are eligible to vote but not registered. We also recommended the Postal Service continue to explore secure digital credentialing and its potential for Internet voting.

Link to review the entire report



June 19, 2013

MEMORANDUM FOR: RANDY S. MISKANIC VICE PRESIDENT, SECURE DIGITAL SOLUTIONS

GARY C. REBLIN VICE PRESIDENT, NEW PRODUCTS AND INNOVATION

WILLIAM C. RUCKER III VICE PRESIDENT, SALES

E-Signed by Inspector General () VERIPY authenticity with eSign Desktop

FROM:

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

SUBJECT: Political and Election Mail Sales (Report Number MS-AR-13-008)

This report presents the results of our audit of Political and Election Mail Sales (Project Number 12RG035MS000).

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

Attachment

cc: Nagisa M. Manabe Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of Political and Election Mail Sales (Project Number 12RG035MS000). Our objective was to evaluate opportunities for the U.S. Postal Service to enhance and increase political and election mail revenue. This self-initiated audit addresses strategic risk. See Appendix A for additional information about this audit.

The Postal Service plays a vital role in the American democratic process by ensuring that it delivers political campaign material mailed by registered political candidates¹ and political action committees (PACs)² to American voters in a timely manner. In the 2008 general election,³ the Postal Service generated about \$227.5 million in political mail revenue. The growth of PACs, Super-PACs,⁴ and other organizations engaging in issue advocacy or voter mobilization has also led to increased mailings from these sources.

Election mail includes all mailings from an election official, such as voter registration cards, absentee applications,⁵ polling place notifications, sample ballot materials, and vote-by-mail ballots. Citizens of Oregon and Washington are required to vote by mail. Twenty-seven states plus the District of Columbia allow "no-excuse" absentee voting⁶ by mail and another 21 states allow excuse-only absentee voting, requiring voters to explain why they will be out of the jurisdiction on Election Day. Election authorities mailed about \$23.4 million in election-related materials during the 2008 general election.

The Postal Service took steps to maximize revenue from the sale of political campaign mail during the general election of 2012. The success of the political mail sales program can be attributed to public interest in ballot referenda⁷ and political races, as well as several Postal Service innovations, including:

Promoting the use of the Every Door Direct Mail (EDDM)⁸ product to effectively reach potential voters and promote ongoing communication throughout the campaign cycle.

¹ An individual or organization recognized as such by the appropriate governmental election control authority.

² A combination of two or more individuals, including any political party governing body, whether state or local, making expenditures to support or oppose any candidate for public office or measure but does not include a voter registration program.

³ Å regular scheduled election in which both the president, and at least part of the national legislature, are elected at the same time. Alternative to general elections are special, local, primary or by-elections.

⁴ Super-PACs are distinguished from PACs in that there are no limitations on political contributions.

⁵ Free absentee balloting materials are sent to members of the Armed Forces in active service and their spouses and dependents.

⁶ In "no-excuse" absentee voting jurisdictions, any registered voter can request an absentee ballot with no requirement that the voter give a reason for his/her desire to vote absentee.

⁷ Some state and local issues attracted high voter participation and turnout, such as same sex marriage, health care, education, and the marijuana legalization amendment. ⁸ EDDM, launched in 2011, is an efficient and affordable way for businesses to target specific areas in their local

market without requiring names and addresses on the mailpieces.

- Sale of quick response codes⁹ to increase the value of mailpieces.
- Improved internal tracking of political mail to increase the visibility of this mail within the mailstream.
- Launch of a political mail sales team with specialized skills and knowledge.

The projected sales revenue of political mail in 2012 was \$285.3 million. However, due to the highly contested nature of some state and local referendums, as well as the high profile of some candidates on the ballots, the Postal Service sold \$508 million of political mail during the 2012 general election. This was a revenue increase of 123 percent from the 2008 general election and a 50 percent revenue increase from the 2010 general election.

The specialized political mail sales team was assembled to focus on pursuing complicated and sensitive leads. During the final 9 weeks leading up to Election Day, this team generated about \$86 million of the \$508 million in total political mail revenue for the 2012 election (or 17 percent). After the 2012 election, the Postal Service continued to develop its strategic approach for the sale of political mail in the future, which includes:

- Early engagement with political mail decisionmakers to strengthen relationships and outreach efforts.
- Leveraging research and resources to ensure districts are active in understanding local election opportunities.
- Focusing on sales leads with high revenue opportunities.
- Earlier engagement of a dedicated, specialized political mail sales team to focus on sales leads with high revenue potential.

Conclusion

Additional opportunities exist for the Postal Service to enhance and increase political mail revenue. The Postal Service has limited ability to influence state and local election officials in fully adopting a vote-by-mail process. However, nonballot election mail, such as absentee request forms, may provide opportunities for increased sales and revenue of about \$1.2 million in the next general election.

In addition, the Postal Service could further explore providing Internet voting to enhance its ability to serve the public and its plans to move into the digital communication market. The Postal Service is working on a platform to facilitate digital authentication.

⁹ A tag or image embedded with a digital watermark that, when scanned with a mobile device, will connect to a digital landing page.

This may provide an opportunity for the Postal Service to expand its digital offerings and set the stage for Internet voting, which could better position the Postal Service's relevance and brand in the future.

Nonballot Election Mail

Opportunities exist to expand the sale of nonballot election mail from election authorities to their constituents. Specifically, the Postal Service could increase its efforts to sell nonballot election mail, such as registration and polling place information, to address citizen groups that are eligible to vote but not yet registered to include voters who have difficulty reaching polling places and voters who have cognitive or literacy issues.

Revenue associated with outbound election mail (from election officials to voters) increased from about \$23 million in the 2008 general election to \$25 million in the 2012 general election (see Table 1).

Election Year	Number of Registered Voters	Estimated Outbound Mail Revenue
2004	174,862,732	\$22,581,241
2008	182,578,209	\$23,350,605
2012	197,828,022	\$25,165,005

Table 1: Estimated Election Mail Revenue 2004-2012

Source: Postal Service New Products and Innovation, generated from George Mason University report.

Based on our analysis of demographic information from Pew Research and Rutgers University, we identified citizens among the Hispanic and disabled populations¹⁰ who are eligible to vote but who have not yet registered. Using a Postal Service estimate of the average number of nonballot mailpieces received per voter (1.33 per election cycle),¹¹ we calculated the potential volume for delivery of nonballot mail to these citizens. We then calculated the revenue opportunity by applying the respective year's revenue per piece rates to the calculated volumes. See Tables 2 and 3 for our analysis.

¹⁰ Information on the Hispanic population gathered from Pew Research. Information on the disabled population gathered from Rutgers University. We identified Hispanics, because they are the nation's largest minority group and comprise 11 percent of eligible voters. However, the turnout rate of eligible Hispanic voters has historically been lower than that of other groups.

¹¹ According to Postal Service officials, the average number of outbound nonballot election mailpieces is 1.35 per voter. We calculated this based on the 2010 election cycle.

Table 2: Revenue Opportunity for the Number of Eligible Unregistered HispanicVoters in the 2012 General Election (in Millions Except Revenue)

Election Year	Number of Eligible Voters	Number of Voters Eligible and Not Registered	Estimated Added Mail Volume by Delivering to Nonregistered Voters	Estimated Revenue Opportunity of Delivering to Nonregistered Voters ¹²
2000	13.2	5.7	7.6	\$714,358
2004	16.1	6.8	9.0	\$852,216
2008	19.5	7.9	10.5	\$990,075
2012	23.7	9.9	13.2	\$1,246,808

Source: Pew Research, A Record 24 Million Latinos Are Eligible to Vote, October 1, 2012.

Table 3: Revenue Opportunity for the Number of Eligible Unregistered Disabled Voters in the 2012 General Election (in Millions Except Revenue)

Election Year	Number of Eligible Voters	Number of Voters Eligible and Not Registered	Estimated Added Mail Volume by Delivering to Nonregistered Voters	Estimated Revenue Opportunity of Delivering to Nonregistered Voters ¹⁶
2008	25.65	8.18	10.87	\$1,043,174
2010 ¹³	25.70	9.23	12.28	\$1,157,108

Source: Rutgers University, Fact Sheet: Disability and Voter Turnout in the 2008 Elections, Fact Sheet: Disability and Voter Turnout in the 2010 Elections.

We estimate that if the Postal Service had increased its efforts to sell nonballot election mailings in the 2012 general election, it could have earned additional revenue of about \$1.2 million. In addition, increasing these efforts during the 2014 election could result in about \$1.2 million additional revenue based on the 2010 and 2012 estimates.¹⁴ See Appendix B for monetary impact.

Internet Voting Opportunities

The Postal Service could further explore providing Internet voting to enhance its ability to serve the public and its plans to move into the digital communication market. In late 2012, the Postal Service was designated by a group created by the president to run a 1-year pilot program for the Federal Cloud Credential Exchange (FCCX).¹⁵ The FCCX program would relieve government agencies from the burden of managing user names

¹² We calculated revenue by multiplying the estimated mail volume by revenue per piece acquired from Postal Service management, which ranged from 94 cents to 96 cents, depending on election year.

¹³ We used 2010 by-election voting population figures as a conservative estimate of 2012 general election voting population in our calculations of monetary impact.

¹⁴ We used the most recent available data: 2010 for disabled Americans and 2012 for Hispanic Americans.

¹⁵ USPS to Pilot Cloud-Based Federal ID Credential Hub (GCN, January 28, 2013).

and passwords used to authenticate citizens who receive services from these agencies. This program may allow for broader government agency acceptance of third-party credentials and provide an opportunity for the Postal Service to position itself in the future to expand digital offerings and set the stage for Internet voting.

Although the FCCX program is in its infancy, its successful implementation, along with the Postal Service's reputation as one of the most trusted agencies, could provide the Postal Service an opportunity to design and offer an Internet voting system to the public. Internet voting systems have already experienced success — cyber-voting was implemented in New Jersey during the Hurricane Sandy recovery efforts and is used exclusively in several nations.¹⁶

Internet voting has several advantages over the current model:

- Increased voter turnout Internet voting, because of the convenience and ease of casting a vote from any computer, could increase voter turnout. This could be especially true for younger voters, who are comfortable with the digital environment, Americans who are abroad or unable to travel to a polling station (typical absentee voters), and any citizen who has stood in line to vote. The use of Internet voting may also engage disenfranchised voters from other sectors of the population.
- Cost reductions Currently, hundreds of voting booths have to be set up and thousands of people have to be hired to ensure that elections must run smoothly. One of the biggest expenses in an election, however, is paper forms. Current voting processes use paper forms in a variety of ways, ranging from voter registration cards, voter information, ballots, and envelopes for mail-in ballots. Some of these costs, absorbed by election authorities, may be alleviated.
- Increased result accuracy A secure and well-designed Internet voting system
 has the potential not only to reduce the percentage of uncounted votes but to total
 votes accurately and almost instantly. An electronic system will also facilitate the
 counting process because it can be automatically updated when a vote is entered.

If the Postal Service successfully establishes a secure digital credentialing platform, it may find itself in a unique position with the voting public and election authorities because of its experience and reputation. Initial identification and verification may have to be done by citizens in person, and post offices might provide the location for this step. Kiosks with computers for voting (as well as other government services) could be placed in Postal Service facilities, as a means of transitioning the public to this method of voting. The use of electronic voting kiosks will increase foot traffic through Postal Service facilities, as allow voting access to citizens without home computers. Although it is uncertain how additional revenue might be generated from this service,

¹⁶ Estonia has allowed Internet voting for all of its citizens since 2007. Canada, Sweden, Latvia, and Switzerland have all experimented with Internet voting.

this opportunity may afford the Postal Service an avenue to remain relevant in the future of service to U.S. citizens and its mailing customers.

Recommendations

We recommend the vice president, New Products and Innovation, coordinate with the vice president, Sales, to:

1. Develop a strategy to increase the sale of nonballot election mail products to citizen groups that are eligible to vote but not registered.

We recommend the vice president, Secure Digital Solutions:

2. Continue to explore secure digital credentialing and its potential for Internet voting.

Management's Comments

Management agreed with our findings and recommendations. In subsequent correspondence, management agreed with the monetary impact. Regarding recommendation 1, management stated that by May 2014, they will work to develop a strategy to increase the sale of nonballot election mail products to citizen groups eligible to vote but not registered.

Regarding recommendation 2, management stated they will continue to explore the possibility for Internet voting within the secure digital credentialing program. However, under current legislative authority, state and local governments are prohibited from secure digital credentialing. Further action specific to this recommendation requires legislative change. Management also noted a correction to our source in Figure 1 of the report. See Appendix C for management's comments, in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report. Regarding recommendation 2, we recognize the legislative changes necessary for states to participate in digital credentialing and agree with the Postal Service's actions to continue to explore Internet voting with the current secure digital credentialing program. We also updated our source information for Figure 1.

Appendix A: Additional Information

Background

Political campaign mail and election mail are high profile and time-sensitive. The Postal Service assumes some risk in providing these products and has taken action to assure it timely handles, processes, and delivers both political and election mail by developing:

- Written guidelines for political and election mailers.
- A publicity kit for Postal Service employees who are in contact with political and election mailers and the voting public.
- Employee training on handling political and election mail.
- Election mail pages on the Postal Service external website USPS.COM for use by mailers.
- Container tags to mark these items when they are entered into the mailstream (see examples at right and below; size has been reduced). The tags provide greater visibility of political and election mail during Postal Service handling.





Political Campaign Mail

Political mail is one of many marketing strategies available to political committees and candidates. In the 2012 general election, the Postal Service expected to sell 3 percent of total political advertising spending across all media types (see Figure 1). However, as a result of increased spending and focus on mail during the weeks preceding Election Day, market share increased to 8 percent. This resulted in an increase in political mail revenue of \$222 million more than the initial projection of \$285.3 million.



Figure 1: 2012 Election Projected Political Advertisement Spending (\$9.8 Billion)

Source: Borrell Associates Inc.: 2012.

Official Election Mail

Election mail consists of ballot and nonballot mail that is sent between election authorities and voting public.

Ballot Mail refers exclusively to ballots sent from the election officials, such as vote-bymail ballots and absentee ballots. The election authority sends an official ballot to the voter, who votes and returns the ballot, also by mail. Citizens' eligibility to vote by mail is determined by their state of residency. Although more states are beginning to accept the broader use of voting by mail, the Postal Service has no influence over state and local election authorities' use of this method.

Nonballot Mail also originates from the election authority and includes mailings such as voter registration cards, absentee applications, polling place notifications, and sample ballot materials. Because the Postal Service cannot affect the number of states adopting vote-by-mail for their citizens, opportunity for increased revenue for the Postal

Service lies with the remaining nonballot election mail items, which are posted and paid for by the election authority.

Internet Voting

Today, many secure consumer services are available via the Internet, including:

- Electronic bill paying.
- Online banking.
- Online merchants selling products and services.
- Airline travel reservations.
- Applying for Social Security benefits.
- Secure online transmission of information.

In the 2012 general election, about 39 percent of voting was done using electronic means, an increase of 9.5 percent since the 2004 election.¹⁷ Additional semiautomated techniques, such as paper ballot with optical scan¹⁸ and mechanical lever machine voting, are widely accepted (see Table 4).

Voting System	Election Year				
	1996	2000	2004	2008 ¹⁹	2012
Electronic voting machine ²⁰	7%	12.5%	29.5%	-	39%
Hand-counted paper ballot	2%	1.5%	1%	-	4%
Paper ballot with optical scan	24%	29.5%	35%	-	56%
Punch card	37%	31%	13%	-	0.02%
Mechanical lever machine	22%	17%	14%	-	0%
Mixed systems ²¹	8%	8.5%	7.5%	-	-

Table 4: Usage of Voting Systems by Percentage of Voters

Source: "Voting Machines," ProCon.

Because Internet access is available to 92 percent of the U.S. voting population, an opportunity exists for Internet voting to play a major role in U.S. elections. Several countries, such as Canada, Sweden, Latvia, and Switzerland have successfully used Internet voting, and Estonia has made Internet voting an option for its citizens since

¹⁷ Obtained from Voting Systems and Use: 1980–2012 by considering the percentage of votes cast by electronic voting machine.

¹⁸ Paper ballot with optical scan is a computerized form of electronic voting similar to scantron. Voters mark a paper ballot with a dark pen, pencil, or marking device, and then feed the ballot through a scanner to tabulate the vote.
¹⁹ Comparable numbers for 2008 were not available. A dash indicates no information was available.

²⁰ Digital recording electronic systems use one of three basic interfaces (buttons, touch screens, or dials) to record votes into the computer's memory.

²¹ Mixed systems indicate a jurisdiction used more than one voting system. Because votes are anonymous, we could not determine the percentage of voters for each type of machine. We could not find 'mixed systems' data for 2012.

2007. Remote electronic voting is available to the U.S. military and family members as well as citizens living overseas. In addition, New Jersey residents were permitted to cast ballots via email or fax after severe flooding and unavailability of some services before the 2012 election.

Objective, Scope, and Methodology

Our audit objective was to evaluate opportunities for the Postal Service to enhance and increase revenue through the political and election mail programs. Our scope included the political campaign mail sales and official election program contributions to the Postal Service's revenue for the 2012 general election. To accomplish our objective, we:

- Reviewed political and election mail policies, procedures, and processes.
- Interviewed Postal Service officials in the Sales, New Products and Innovation, and Secure Digital Solutions groups to gather information on political and election mail programs.
- Reviewed CustomerFirst! system data for political mail sales for the 2012 general election.
- Performed a correlation analysis to observe any potential relationship within the data such as number of leads and revenue generated and lead success rate and revenue generated by the political mail program.
- Identified whether additional opportunities exist to enhance the political and election mail sales programs with little to no cost to the Postal Service.

We conducted this performance audit from October 2012 through June 2013 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based our observations and conclusions with management on May 13, 2013.

We did not perform a reliability assessment of any automated systems; however, we determined the data used for this report were reliable by validating the data to source documents.

Prior Audit Coverage

Potential Financial Effect on the U.S. Postal Service of Increased Voting by Mail (Report Number GAO-12-72R, dated 10/20/2011). The General Accountability Office (GAO) did not make any recommendations and only provided the report for management's comments. The Postal Service agreed with the finding that voting by mail has limited

revenue potential and stated that it considers election mail a required public service rather than a large revenue opportunity. The GAO found that voting by mail has limited to no potential for providing the Postal Service with additional revenue substantial enough to affect its deteriorating financial condition. The main factors for this result were the small potential increase in volume relative to the total mail volume, the low profit margins provided by election mail, and the lack of strong nationwide support for voting by mail. The Postal Service noted that it will continue to work with election officials to develop creative solutions to enhance the service offering for election mail.

Appendix B: Monetary Impact

Recommendation	Impact Category	Amount
1	Revenue Loss	\$2.4 million

As shown in Table 2 of the report, we identified voting-eligible populations for two citizen groups (Hispanic Americans and disabled Americans) and the number of eligible voters from these groups who have registered to vote. If election authorities had increased nonballot election mailings, we estimate the Postal Service would have earned an additional \$1.2 million in revenue (revenue lost) during the 2012 general election and could potentially earn an additional \$1.2 million in revenue for the upcoming election. Therefore, we are claiming a total monetary impact of \$2.4 million.

Appendix C: Management's Comments



June 6, 2013

JUDITH LEONHARDT DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Political and Election Sales Mail (Report Number MS-AR-13-DRAFT; Project Number 12RG035MS000, dated May 29, 2013)

The findings and recommendations outlined in the Political and Election Sales Mail Draft Audit report have been reviewed and the response is as follows. We also request that all confidential and contract related data be redacted from the audit report as noted below.

Recommendations for Vice President, New Products and Innovation, in coordination with the Vice President, Sales:

Recommendation [1]:

Develop a strategy to increase the sale of non-ballot election mail products to citizen groups that are eligible to vote, but not registered.

Management Response/Action Plan:

Management is in agreement with the recommendation and will work to develop a strategy to increase the sale of non-ballot election mail products to citizen groups eligible to vote, but not registered. Sales will target the \$1.2 million in identified revenue opportunity through outreach efforts directed to these citizen groups.

Target Implementation Date: Six months prior to the 2014 mid-tem election

<u>Responsible Manager</u>: Gary Reblin, Vice President, New Products and Innovation Cliff Rucker, Vice President, Sales

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Recommendations for Vice President, Secure Digital Solutions:

Recommendation [2]:

Continue to explore secure digital credentialing and its potential for Internet voting.

Management Response/Action Plan:

Management is in agreement with the recommendation; however current authority limits the Postal Service to the provision of credentialing and authentication services to the federal government and not state or local governments. Secure Digital Solutions will continue to explore and evaluate revenue opportunities in the digital space.

Target Implementation Date:

Further action specific to the recommendation requires legislative change, which cannot be controlled by the Postal Service. Therefore, we request that the implementation for the recommendation be closed and agree to keep the recommendation in mind in the event of a change in statutory environment.

Responsible Manager: Randy S. Miskanic, Vice President, Secure Digital Solutions

This report and management response contains information that may be exempt from disclosure under the FOIA. It is requested that highlighted redactions and correction to source information for Figure 1 on page 13 be made per the attached document.

very in Monteil

जिन Gary Reblin Vice President, New Products and Innovation

Randy S. Miskanic Vice President, Secure Digital Solutions

cc: Nagisa Manabe

Cliff Rucker Vice President, Sales

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