



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

**Shortpaid Postage – Information-
Based Indicia Packages,
Southern Area**

Audit Report

September 17, 2013

Report Number MS-AR-13-011



HIGHLIGHTS

September 17, 2013

Shortpaid Postage – Information-Based Indicia Packages, Southern Area

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BACKGROUND:

The U.S. Postal Service offers several forms of postage payment, including stamps, postage meters, and Information-Based Indicia (IBI). IBI is postage that appears in a digital format on the mailpiece and is purchased using a computer or an Automated Postal Center. The Postal Service has various processes in place to verify that the appropriate postage has been paid using one of the payment methods. However, mailpieces are sometimes accepted, processed, and delivered without sufficient postage (shortpaid postage).

The Postal Service estimated about [REDACTED] in shortpaid postage loss nationwide in fiscal year (FY) 2012 for mailpieces with visible postage. IBI package shortpaid postage accounts for \$70 million of the [REDACTED] and is the largest area of revenue loss. About \$49 million of the [REDACTED] was attributed to losses in the Southern Area, of which about \$14 million was attributed to IBI package shortpaid postage.

Our objective was to determine whether the processes for preventing and detecting IBI package shortpaid postage in the Southern Area are effective.

WHAT THE OIG FOUND:

The Southern Area's processes for preventing and detecting shortpaid postage on IBI packages were not

effective. We identified a systemic pattern of shortpaid postage in the districts we visited, involving both small and large mailers. Shortpaid postage amounts on individual IBI packages ranged from 8 cents to \$290.

[REDACTED]
[REDACTED]
[REDACTED] the Southern Area does not have a comprehensive strategy for identifying and reducing shortpaid postage. We believe implementing such a strategy could mitigate shortpaid postage on IBI packages, which we estimate to be about \$41 million in FY 2012 including IBI packages with hidden postage. If the Southern Area implemented this strategy, it would also positively affect non-IBI shortpaid packages estimated to be an additional \$12 million in FY 2012.

WHAT THE OIG RECOMMENDED:

We recommended the Southern Area develop a strategy to identify and reduce shortpaid postage on IBI packages. The strategy could include items such as establishing goals, roles, and responsibilities for identifying shortpaid postage, assigning and training personnel to identify shortpaid postage, and enhanced coordination with the Postal Inspection Service.

[Link to review the entire report](#)



September 17, 2013

MEMORANDUM FOR: JO ANN FEINDT
VICE PRESIDENT, SOUTHERN AREA

E-Signed by Inspector General
VERIFY authenticity with eSign Desktop

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

SUBJECT: Audit Report – Shortpaid Postage - Information-Based
Indicia Packages, Southern Area
(Report Number MS-AR-13-011)

This report presents the results of our audit of Information-Based Indicia shortpaid postage prevention and detection processes in the Southern Area (Project Number 13RG006MS000).

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

Attachment

cc: Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of Information-Based Indicia (IBI) package shortpaid postage prevention and detection processes in the Southern Area (Project Number 13RG006MS000). Our objective was to determine whether the processes for preventing and detecting IBI package shortpaid postage in the Southern Area are effective. This audit is self-initiated. See [Appendix A](#) for additional information about this audit.

U.S. Postal Service customers are required to purchase postage for their mailings, which is affixed to the mailpiece. This affixed postage provides evidence of payment to Postal Service employees. Customers can purchase postage at different locations including Postal Service retail locations and contract postal units. Customers can also purchase and print online postage from any computer. This type of postage, known as IBI, is digital and includes human readable information and a Postal Service approved two-dimensional barcode or other Postal Service-approved symbology with a digital signature and other required data fields. IBI postage has an added feature where customers can choose whether or not to display the value of the postage on the label. When the value is not displayed, it is considered hidden postage.¹ According to revenue, pieces, and weight (RPW) data, this type of postage comprised 60 percent of all IBI postage in fiscal year (FY) 2012 in Southern Area. Because IBI is convenient to obtain and increases the efficiency of the mailer, IBI postage use is growing.² Once IBI is printed in a home or business office, carrier pick-up of packages makes this a convenient option to residential and business customers alike. See [Appendix A](#) for a list of the types of affixed postage.

While the Postal Service has various processes in place to verify these different postage payment methods, mailpieces are sometimes accepted, processed, and delivered with insufficient [REDACTED]

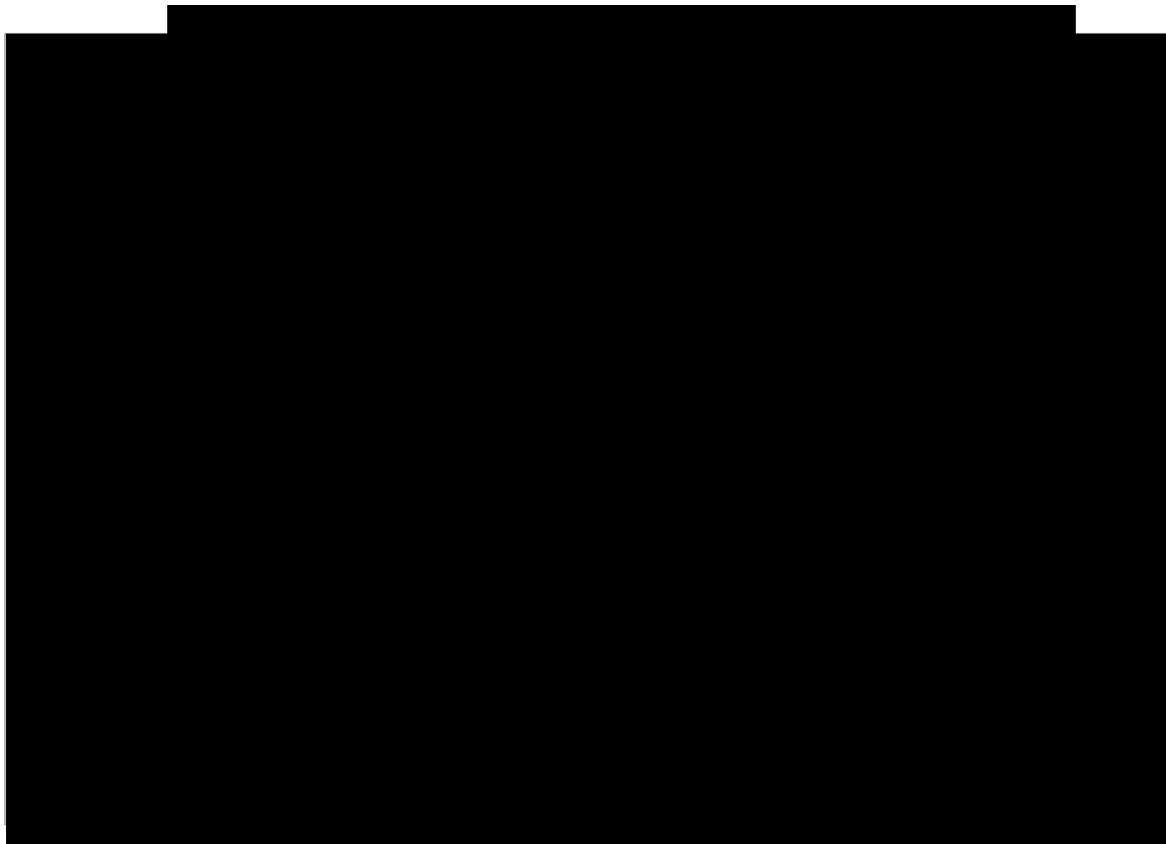
[REDACTED] Mail which has not been adequately paid for is considered shortpaid. All types of mail experience some level of shortpaid postage, and this results in a revenue deficiency for the Postal Service. Postal Service data indicated that [REDACTED] of revenue was lost in FY 2012 due to shortpaid postage. The largest percentage of this shortpaid revenue was attributed to IBI package postage (nearly \$70 million in FY 2012). The Southern Area accounted for about \$49 million, or [REDACTED] percent, of total nationwide shortpaid revenue loss during this same period. IBI

¹ Hidden also referred to as stealth postage, allows mailers to pay postage and affix a label without disclosing the amount of postage paid to the receiver. The actual postage amount (in dollars or cents) is not visible. [REDACTED]

² From FYs 2011 to 2012, PC postage volume grew by about 43 million pieces (28 percent) and revenue grew by about \$142 million (27 percent) in the Southern Area.

³ This figure does not include shortpaid revenue loss from mailpieces with hidden postage.

Packages shipped in the Southern Area⁴ accounted for about \$14 million, representing about 5 percent of total nationwide shortpaid revenue loss, and 21 percent of nationwide IBI package shortpaid revenue loss during FY 2012. See Figure 1.



IBI postage provides increased convenience and efficiency to residential and business mailers; however, the amount of shortpaid postage in FY 2012 (particularly in the Southern Area) results in a sizeable revenue risk to the Postal Service. This risk is likely to increase considering that IBI postage use continues to grow nationwide and [REDACTED]

The Postal Service is utilizing several automated tools to enhance its strategy for detecting shortpaid postage. Specifically, Automated Package Processing System (APPS) machines, [REDACTED] have the capability to examine the dimension, weight, and postage on an IBI package and determine whether it potentially has shortpaid postage. In addition, the Postal Service is in the process of deploying Passive Adaptive Scanning Systems (PASS) machines [REDACTED]

⁴ RPW estimate is based on originating ZIP Code.

⁵ Hidden (stealth IBI) postage is not included in these figures.

[REDACTED]

[REDACTED]

Conclusion

The Southern Area’s processes for detecting IBI package shortpaid postage were not effective. We identified a systemic pattern of shortpaid IBI packages in the districts we visited, involving both small and large mailers. Shortpaid postage amounts on individual packages ranged from 8 cents to \$290. [REDACTED]

[REDACTED] the Southern Area does not have a comprehensive strategy for identifying and reducing shortpaid postage. We believe implementing such a strategy could mitigate the risk of shortpaid postage on IBI packages, which we estimate to be about \$41 million in the Southern Area for FY 2012. If the Southern Area implemented this strategy, it would also positively affect non-IBI shortpaid packages estimated to be an additional \$12 million in FY 2012. See [Appendix B](#) for our calculation of other impact.

Shortpaid Postage Identification

The processes for detecting shortpaid IBI postage were not effective. Specifically, during our random testing in the Suncoast District, we identified [REDACTED] of the IBI packages we tested were shortpaid by an average of \$1.28 per piece. These test results are representative of the figures found in the Postal Service’s FY 2012 RPW shortpaid postage data for IBI packages. See [Table 1](#) for a comparison.

[REDACTED]

Table 1. IBI Package Shortpaid Test Results Compared to RPW Data

Postage Insufficiency	OIG Test	FY 2012 RPW Data	
	Suncoast District	Southern Area	National
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Shortpaid Per Piece	\$1.28	\$1.25	\$1.13

Source: U.S. Postal Service Office of Inspector General (OIG) test results and RPW data.

In the Houston District, we judgmentally tested [REDACTED] packages at two processing plants and determined that [REDACTED] of them were shortpaid by an average of [REDACTED]. See Figure 2 for the breakdown of shortpaid test mailpieces by the range of amount shortpaid.



[REDACTED] The Postal Service also has not developed national guidance that clearly defines an area’s roles and responsibilities for identifying shortpaid postage that does not enter through the retail channel. Instead, existing guidance simply directs that all Postal Service employees are responsible for preventing the loss of revenue by identifying and collecting short or unpaid postage and fees.⁸

⁸ Handbook PO-209, *Retail Operations*, October 2012, Section 4-1, Revenue Protection and Assurance.

Recommendation

We recommend the vice president of the Southern Area:

1. 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 enhanced coordination with the Postal Inspection Service.

Management's Comments

Management agreed with our finding and recommendation, and will implement additional training for employees to enhance the identification of shortpaid postage. Also, management plans to use best practices to identify patterns of shortpaid postage and address leakage. The targeted implementation date for these actions is November 13, 2013. Management did not dispute the other impact associated with shortpaid postage. See [Appendix C](#) for management's comments, in their entirety.

Evaluation of Management's Comments

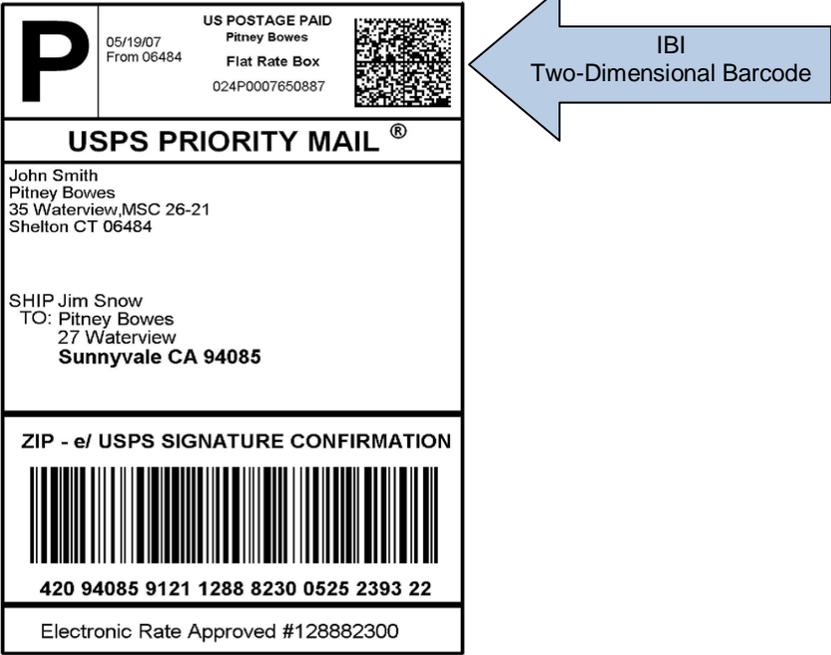
The OIG considers management's comments responsive to the recommendation and corrective actions should resolve the issues identified in the report.

Appendix A: Additional Information

Background

Affixed postage provides evidence to Postal Service employees that postage fees have been paid and the mailpiece can be processed and delivered.

Table 2. Types of Affixed Postage

Indicia	Description
Stamps	A stamp can be an ordinary stamp, a precanceled stamp, or an official stamp.
Meter	Metered indicia bear an impression denoting payment of postage. The impression is imprinted by a meter stamp device directly onto the mailpiece or on a meter strip affixed to the mailpiece.
Postal Validation Imprint (PVI)	PVI is a meter strip with the postage paid, the origin ZIP Code, the date of mailing, and the 5-digit destination ZIP Code.
Permit Imprint	Permit Indicia contain the words Permit No. and the mail class of the mailpiece.
IBI	<p>IBI is digital indicia that includes human readable information and a Postal Service approved two-dimensional barcode or other Postal Service-approved symbology with a digital signature and other required data fields.</p> <p>PC Postage[®] products and services are the products that print an IBI as the postage mark. PC Postage is an application of secure technology (Postal Security Device) that allows customers to purchase and print postage using personal computers.</p> <div style="text-align: center;">  <p>The image shows a USPS Priority Mail envelope. At the top left is a large 'P' logo. To its right, it says 'US POSTAGE PAID' followed by '05/19/07 From 06484', 'Pitney Bowes Flat Rate Box', and '024P0007650887'. A square 2D barcode is to the right of this text. A blue arrow points from the text 'IBI Two-Dimensional Barcode' to this square barcode. Below the postage information is the 'USPS PRIORITY MAIL' logo. The recipient address is 'John Smith, Pitney Bowes, 35 Waterview, MSC 26-21, Shelton CT 06484'. The shipper information is 'SHIP Jim Snow, TO: Pitney Bowes, 27 Waterview, Sunnyvale CA 94085'. Below that is a 'ZIP - e/ USPS SIGNATURE CONFIRMATION' label with a standard 1D barcode and the number '420 94085 9121 1288 8230 0525 2393 22'. At the bottom, it says 'Electronic Rate Approved #128882300'.</p> </div>

Sources: Handbook F-75, *Data Collection User's Guide for Revenue, Volume, and Performance Measurement System*, and *Postal Bulletin* 22218, October 25, 2007.

One of the risks associated with affixed postage is shortpaid mail. The RPW system continues to be the primary source of data regarding the magnitude of shortpaid postage in the Postal Service. The RPW is the primary probability sampling system that estimates revenue, volume, and weight. The Postal Service uses data from statistical tests to develop new rates, assist in budget preparation, conduct management studies, and support management decisions concerning mail flow. The RPW statistical tests require data collectors to statistically select mailpieces and record various mailpiece characteristics, such as revenue, weight, shape, indicia, barcode, postmark date, origin, and mail class. See Table 3 for selected RPW shortpaid figures.

Table 3. Shortpaid Revenue Loss Holds Steady While Volume and Total Revenue Decline

Nationwide	FY 2011	FY 2012
Total Postal Service Revenue	\$ 66 billion	\$ 65 billion
Total Mail Volume	\$168 billion	\$160 billion

Source: RPW.

The Postal Service estimated about [REDACTED] in shortpaid revenue loss nationwide based on FY 2012 RPW data. Of the nationwide total, IBI package shortpaid postage ranked highest among all indicia and shape combinations at about \$70 million. About \$14 million was attributed to mailpieces originating in the Southern Area, which also ranked highest among all areas, as shown in Table 4.

Table 4. Total IBI Package Shortpaid by Area – FY 2012

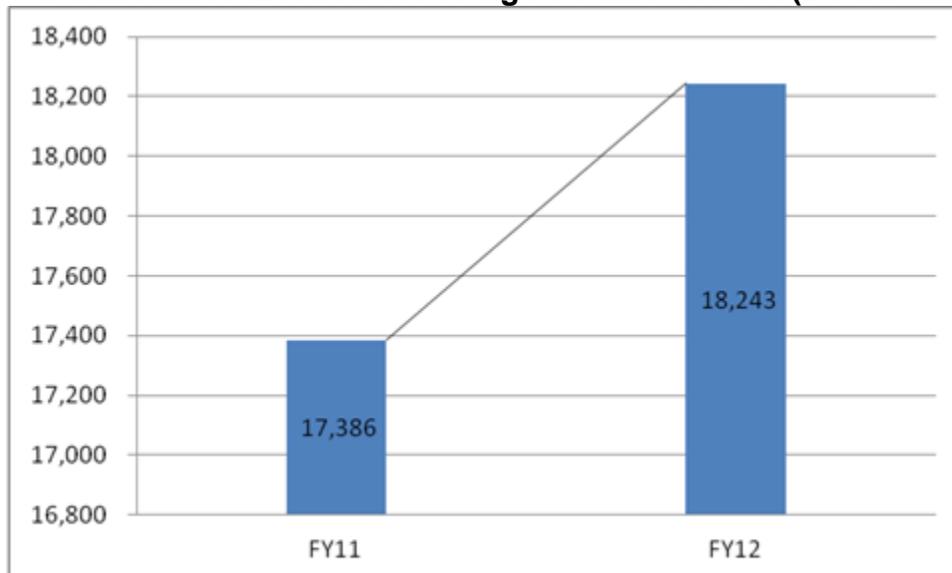
Area	Total IBI Package Shortpaid
Southern	\$14,389,117
Western	14,231,029
Pacific	12,468,102
Northeast	7,959,938
Eastern	7,831,813
Capital Metro	6,520,563
Great Lakes	6,111,444
Unknown Origin	458,412
Total	\$69,970,417

Source: RPW. Note: Total may not sum due to rounding error.

RPW shortpaid data was collected by data collection technicians during statistical testing. As mentioned above, RPW shortpaid data does not include hidden postage. Therefore, actual shortpaid revenue loss [REDACTED] [REDACTED] FY 2012 RPW data indicated that about [REDACTED] percent of IBI

postage in the Southern Area were hidden. Further, RPW data indicated hidden postage volume increased more than 856 million⁹ pieces in FY 2012. See trend in Figure 3.

Figure 3. Nationwide IBI Hidden Postage Volume Growth (Data in Millions)



Source: RPW.

Objective, Scope, and Methodology

Our objective was to determine whether prevention and detection processes over IBI package shortpaid postage in the Southern Area were effective.

We conducted this performance audit from December 2012 through September 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 on our audit objective. We discussed our observations and conclusions with management on August 14, 2013, and included their comments where appropriate.

We analyzed RPW data and assessed its reliability by testing random samples. We determined that the data were sufficiently reliable for the purposes of this report. We conducted shortpaid testing at various judgmentally selected locations. We conducted interviews with Postal Service employees and management at various levels. We surveyed and collected feedback from all districts in the Southern Area. We interviewed Postal Inspection Service and shared our test results. We [REDACTED] employees and management.

⁹ This number may not match Figure 3 due to rounding error.

We did not evaluate the effectiveness of the PASS program. During the conduct of this audit, the program was not fully operational.

Prior Audit Coverage

The OIG issued one audit report related to revenue protection in the past 3 years, *Strategic Approaches to Revenue Protection* (Report Number [MS-AR-11-007](#), dated September 30, 2011) found that the Postal Service continues to address revenue protection through technological initiatives as well as checklists, quick service guides, and training for clerks. However, revenue leakage will continue to occur until automated verification procedures that use mail processing equipment and intelligent mail (IM) technologies replace current manual processes. Preparation for fully automating the business mail entry process will depend on broadened collaboration with processing officials and adoption of Full-Service IM barcodes on mailpieces and containers. Basic Service IM and non-automated mail will continue to require costly manual revenue protection procedures until additional automated technologies are developed. Management partially agreed with the recommendations, but disagreed with the monetary impact.

Appendix B: Other Impact

Recommendation	Impact Category	Amount
1	Revenue at Risk ¹⁰	\$52,283,803

RPW data indicated shortpaid revenue loss of \$14,389,117 for IBI packages with visible postage and \$11,731,397 for non-IBI packages in FY 2012. Based on the same data, we calculated¹¹ potential shortpaid revenue loss of about \$26,163,289 for IBI packages with hidden postage. Without improvements to the Southern Area’s overall strategy to prevent and detect IBI shortpaid packages, a total of \$52,283,803 will remain at risk. See calculation, below.

Revenue At Risk Calculation

Shortpaid IBI Package with Visible Postage		\$ 14,389,117
Shortpaid IBI Package with Hidden Postage	+	26,163,289
Total IBI Package Shortpaid		\$ 40,552,406
Non-IBI Package Shortpaid	+	11,731,397
Total Package Shortpaid		\$ 52,283,803

¹⁰ Revenue that the Postal Service is at risk of losing.

¹¹ Shortpaid for hidden postage were estimated based on total volume, total shortpaid volume, total shortpaid postage, shortpaid volume percentage, and shortage per piece of IBI packages with visible postage.

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Target Implementation Date:

November, 2013

Responsible Official:

Manager, Marketing (Area)

This audit report and management response does include information that may be exempt from disclosure under the FOIA.


Eric D. Chavez

cc: Jo Ann Feindt
Megan J. Brennan
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