



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Oversight of the Approved Shippers Program

Audit Report

Report Number
SM-AR-15-004

May 26, 2015





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

Approved shippers are package and shipping retailers that enter into agreements with the Postal Service to offer postal products and services along with the products of its competitors.

The Postal Service can improve oversight of the Approved Shippers Program.

Background

The U.S. Postal Service seeks to extend the convenience and reach of its products and services by locating them near where customers live, work, and shop. In August 2013, the Postal Service started a 1-year pilot program with Staples, in which the retailer sold only Postal Service shipping products and services and not those of its competitors. During the pilot, the American Postal Workers Union expressed various concerns with the Postal Service's partnership with Staples. Due to mounting union protests, the Postal Service ended the pilot in August 2014. Staples then joined the Approved Shippers Program.

Approved shippers are package and shipping retailers that enter into agreements with the Postal Service to offer postal products and services along with the products of its competitors. They do not receive direct compensation from the Postal Service; rather, they get pricing discounts for postal products and can add a surcharge above established postal retail prices to generate profits.

In fiscal year 2014, the Postal Service partnered with over 6,400 approved shippers across the U.S. and generated over [REDACTED] in revenue from the program.

Our objectives were to determine whether there was adequate oversight of the Approved Shippers Program and evaluate whether the new Staples Approved Shipper Agreement is consistent with others in the program.

What The OIG Found

The Postal Service can improve oversight of the Approved Shippers Program. We determined the Postal Service did not conduct quarterly performance reviews as required for 84 of 107 (79 percent) approved shippers we evaluated.

Also, although approved shippers on average had shorter wait times than post offices, the shippers did not always adhere to mail security and signage requirements. Specifically, of the 107 approved shippers we evaluated:

- Eighty-one (76 percent) did not ask the required mail security questions.
- Eighty-eight (82 percent) were willing to or did accept packages without knowing the contents.
- Thirty-three (31 percent) did not examine packages for mailing standards.
- Nine (8 percent) did not secure mail away from public access.
- Twenty-nine (27 percent) did not display signage offering postal products and services.

Without formal guidance and oversight, the Postal Service cannot ensure approved shippers are promoting postal products and meeting mail security requirements. This can increase the risk of hazardous materials entering the mailstream and



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

We calculated \$53 million in replacement costs for potential damages to postal facilities if hazardous mail were to enter the mailstream.

customers purchasing products and services from competitors. This could affect employee and public safety as well as the Postal Service's mail delivery operations, goodwill, and brand.

We calculated [REDACTED] for potential damages to postal facilities if hazardous mail were to enter the mailstream. This amount does not include payments for injuries to Postal Service employees or customers.

Finally, we determined 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. Specifically, the agreement

addressed mail safety and security, compensation and discounts, sharing of customer information, and advertising. We also found the Postal Service's partnership with Staples did not result in the Postal Service increasing its office supply purchases from Staples. The purchases were divided evenly among three suppliers.

What The OIG Recommended

We recommended management develop formal policies and procedures for overseeing the Approved Shippers Program including roles, responsibilities, and a verification process for performing reviews of approved shippers.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 26, 2015

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

A rectangular box containing a handwritten signature in black ink that reads "John E. Cihota".

FROM: John E. Cihota
Deputy Assistant Inspector General
for Finance and Supply Management

SUBJECT: Audit Report – Oversight of the Approved Shippers Program
(Report Number SM-AR-15-004)

This report presents the results of our audit of the Oversight of the Approved Shippers Program (Project Number 14YG015SM000).

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

Attachment

cc: Corporate Audit and Response Management

Table of Contents

Cover	
Highlights.....	1
Background.....	1
What The OIG Found.....	1
What The OIG Recommended	2
Transmittal Letter.....	3
Findings	5
Introduction	5
Conclusion	5
Oversight of Approved Shippers	6
Quarterly Performance Reviews	6
Wait Times in Line	7
Mail Security.....	7
Signage	8
American Postal Workers Union Concerns.....	9
Pilot Selection, Compensation, and Discounts.....	9
Mail Safety and Security Training.....	10
Handling Customer Personally Identifiable Information	10
Marketing Arrangements	11
Retail Labor Hours	12
Purchasing Practices for Office Supplies	13
Recommendation	14
Management’s Comments	14
Evaluation of Management’s Comments	14
Appendices.....	15
Appendix A: Additional Information	16
Background	16
Objectives, Scope, and Methodology.....	17
Prior Audit Coverage	18
Appendix B: Management’s Comments.....	19
Contact Information	21

Findings

Due to mounting union protests, the Postal Service ended the pilot in August 2014. Staples then joined the Approved Shippers Program.

In fiscal year (FY) 2014, the Postal Service partnered with over 6,400 approved shippers across the U.S.

Although approved shippers on average had shorter wait times than post offices, shippers did not always adhere to the mail security and signage requirements.

Introduction

This report presents the results of our self-initiated audit of the Oversight of the Approved Shippers Program (Project Number 14YG015SM000). Our objectives were to determine whether there is adequate oversight of the U.S. Postal Service's Approved Shippers Program and to evaluate whether the new Staples the Office Supply Superstore, LLC (Staples) Approved Shipper Agreement is consistent with other approved shipper agreements. See [Appendix A](#) for additional information about this audit.

The Postal Service seeks to extend the convenience and reach of its products and services by locating them near where customers live, work, and shop. In August 2013, the Postal Service started a 1-year pilot program with Staples, in which the retailer sold only Postal Service shipping products and services, and not those of its competitors. During the pilot, the American Postal Workers Union (APWU) expressed various concerns with the Postal Service's partnership with Staples. Due to mounting union protests, the Postal Service ended the pilot in August 2014. Staples then joined the Approved Shippers Program.

Approved shippers are package and shipping retailers that enter into agreements with the Postal Service to offer postal products and services along with products of its competitors. They do not receive direct compensation from the Postal Service; rather, they get pricing discounts for postal products and can add a surcharge above established postal retail prices to generate profits.

Approved shipper agreements cover items such as mail security requirements and quality control. Approved shippers must display signage offering postal products and services and may use Postal Service promotional materials for this purpose. Some larger shippers jointly advertise with the Postal Service, but they are responsible for the costs incurred for any discounts they give customers.

In fiscal year (FY) 2014, the Postal Service partnered with over 6,400 approved shippers across the U.S. and generated over [REDACTED] in revenue from the program.

Conclusion

The Postal Service can improve oversight of the Approved Shippers Program. We determined the Postal Service did not conduct quarterly performance reviews as required for 84 of 107 (79 percent) approved shippers we evaluated.

Also, although approved shippers on average had shorter wait times than post offices, shippers did not always adhere to the mail security and signage requirements.

Specifically, of the 107 approved shippers we evaluated:

- Eighty-one (76 percent) did not ask the required mail security questions.
- Eighty-eight (82 percent) were willing to or did accept packages without knowing the contents.
- Thirty-three (31 percent) did not examine packages for mailing standards.
- Nine (8 percent) did not secure mail away from public access.
- Twenty-nine (27 percent) did not display signage offering postal products and services.

Without formal guidance and oversight, the Postal Service cannot ensure approved shippers are promoting postal products and meeting mail security requirements.

We determined the Staples Approved Shippers Agreement is consistent with other approved shipper agreements with regard to requirements for mail safety and security, compensation and discounts, sharing of customer information, and advertising.

There is no official policy assigning personnel to conduct and verify completion of these reviews.

Without formal guidance and oversight, the Postal Service cannot ensure approved shippers are promoting postal products and meeting mail security requirements. This can increase the risk of hazardous materials entering the mailstream and customers purchasing products and services from competitors. This could affect employee and public safety as well as the Postal Service's mail delivery operations, goodwill, and brand.

We calculated [REDACTED] for potential damages to postal facilities if hazardous mail were to enter the mailstream. This amount does not include injuries to Postal Service employees or customers.

Finally, we determined the Staples Approved Shippers Agreement is consistent with other approved shipper agreements with regard to requirements for mail safety and security, compensation and discounts, sharing of customer information, and advertising. We found the Postal Service's partnership with Staples did not result in the Postal Service increasing its office supply purchases from Staples. The purchases were divided evenly among three suppliers.

Oversight of Approved Shippers

The Postal Service can improve oversight of the Approved Shippers Program. Postal Service personnel did not review performance quarterly for 84 of 107 approved shippers' locations (79 percent). In addition, approved shippers did not always meet mail security and signage requirements.

Quarterly Performance Reviews

The Postal Service did not conduct quarterly performance reviews for 84 of the 107 (79 percent) approved shippers we evaluated (see [Figure 1](#)). Quarterly reviews are composed of a 16-question checklist focusing on the following areas:

- Operational efficiency - focuses on the approved shipper's knowledge of postal products and mail security requirements.
- Professionalism - evaluates customer service standards.
- Facility image - determines whether postal signage is professionally displayed at the approved shipper's location.

The Postal Service did not perform the quarterly performance reviews because there is no official policy assigning personnel to conduct and verify completion of these reviews. The Postal Service's approved shippers training course¹ states that quarterly reviews of all approved shippers are required to help monitor the shippers' performance. However, management acknowledged they did not designate personnel to oversee the program, even though they intended to assign this role to the district coordinators.

In addition, 20 of the 84 approved shippers were enterprise shippers.² These shippers had an established internal review process to monitor compliance with the Postal Service license agreements at their various locations. However, the Postal Service did not verify the internal reviews were conducted and complied with the approved shipper agreements. Quarterly performance reviews help the Postal Service determine the approved shippers' knowledge of mail security requirements and afford the Postal Service the opportunity to provide continuous guidance.

¹ USPS Approved Shipper Employee Orientation Course #41Q01-15.

² Large retailers whose approved shipper agreements are monitored by the Postal Service at its headquarters.

Approved shippers provided increased customer service through short wait-times- in-line.

Approved shippers agreed to abide by the Postal Service Aviation Security and Hazardous Materials Acceptance Procedures

As a result of our audit, the Postal Service began evaluating and implementing changes to the approved shippers review process. Effective February 2015, the headquarters Program Management Office (PMO) is responsible for selecting a sample of approved shippers for districts to review on a monthly basis. The PMO is responsible for verifying the review results from districts.

Wait Times in Line

Approved shippers provided increased customer service through short wait-times- in-line (WTIL). We determined the WTIL at 99 of 107 approved shippers (93 percent) we visited was 5 minutes or less (see results in [Figure 1](#).) The Postal Service created the WTIL initiative to keep customer wait time to a minimum, while providing quality customer service. Its 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 did not always adhere to mail security requirements.

Specifically, of the 107 approved shippers we reviewed:

- Eighty-one (76 percent) did not ask the required mail security questions.
- Eighty-eight (82 percent) were willing to or did accept packages without knowing the contents.³
- Thirty-three (31 percent) did not examine packages for mailing standards.
- Nine (8 percent) did not secure mail away from public view and access (see results in [Figure 1](#)).

Approved shippers agreed to abide by the Postal Service Aviation Security and Hazardous Materials Acceptance Procedures⁴ 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. Conducting quarterly performance reviews would have helped the Postal Service identify these deficiencies and afford it the opportunity to provide continuous guidance on the Hazardous Material (HAZMAT) program.

Without adequate oversight, approved shippers may increase the risk of a catastrophic event occurring with HAZMATs, such as explosives, flammables, toxic and/or radioactive materials entering the mailstream. Such events could harm postal customers, employees, facilities, and operations.

We calculated [REDACTED] for potential damages to postal facilities due to hazardous mail entering the mailstream. We calculated the replacement costs based on the estimated market value of 55 of the 61⁶ postal facilities accepting mail from the 81 approved shippers that did not ask the mail security questions and the 88 approved shippers that were willing to accept mail without knowing its contents.

³ We mailed seven test packages to demonstrate potential risk to public safety and Postal Service's mail delivery operations.
⁴ Publication 52, *Hazardous, Restricted, and Perishable Mail*, effective May 15, 2014.
⁵ This cost does not include injuries to postal customers, employees, or loss operations.
⁶ We were not able to determine the market value for six properties.

Signage

We found 29 of 107 approved shippers (27 percent) did not always display postal signage (see results in Figure 1). License agreements require approved shippers to display signage offering postal products and services.

The Postal Service lets approved shippers use its signage to protect its brand and ensure it is properly represented as an option, along with competitors such as FedEx® or UPS®. When it does not conduct quarterly performance reviews to check for signage, the Postal Service increases the risk of lost revenue because customers are not aware that Postal Service products and services are available at approved shippers' locations.

Figure 1. Observation Results for Sampled Approved Shippers



The Postal Service lets approved shippers use its signage to protect its brand and ensure it is properly represented as an option, along with competitors such as FedEx® or UPS®.

Source: U.S. Postal Service Office of Inspector General (OIG) analysis.

The Postal Service solicited 75 retailers, including Staples, to participate in the pilot. Retailers included drug and grocery stores, mass merchants, and convenience stores.

American Postal Workers Union Concerns

The APWU had various concerns with the Postal Service's Approved Postal Provider pilot with Staples, which led to a series of protests at those Staples locations involved in the pilot. Those concerns included the belief that:

- The Postal Service entered into a secret arrangement with Staples and compensated them through discounts on postal products and services.
- Staples employees were not required to receive the same training as Postal Service employees on mail security and HAZMAT.
- Staples shared customers' personally identifiable information (PII) and buying habits with the Postal Service.
- The Postal Service was incentivizing Staples to attract volume and revenue through discounts and joint marketing arrangements.
- The Staples pilot resulted in reductions in retail labor hours at post offices around Staples locations.
- The Postal Service instructed its employees to purchase office supplies solely from Staples.

During our audit, the Staples pilot was canceled and Staples joined the Approved Shippers Program. Therefore, we reviewed the new Staples Approved Shipper Agreement to determine if it was consistent with other shipper agreements.

Pilot Selection, Compensation, and Discounts

We determined the pilot was not a private arrangement. The Postal Service solicited 75 retailers, including Staples, to participate in the pilot. Further, we determined that the Postal Service did not provide direct compensation to Staples or other approved shippers; rather, approved shippers make profits by adding non-postal surcharges to their pricing discounts.⁷

The Postal Service solicited interest for participating in the pilot by requesting information from 75 specific retailers that were strategically aligned with its goals. These retailers included drug and grocery stores, mass merchants, and convenience stores. Of the four retailers that responded to the request, the Postal Service selected Staples based on financial performance,⁸ customer footprint,⁹ and strategic alignment.¹⁰

The pilot included a negotiated service agreement¹¹ addressing rebates Staples received for selling qualifying mail packages.¹² Rebates consisted of the difference between published retail prices for qualifying mail packages and the following customized prices:

■ [REDACTED]

7 [REDACTED]

8 Average operating cash flow per location, comparative store sales, and credit rating.

9 Criteria based on average weekly customer visits and average population within a 5-minute drive of store locations.

10 Absence of partnerships with Postal Service competitors, proximity to targeted post offices, reputation of equitable employment practices, and brand attributes.

11 A contractual agreement between the Postal Service and an individual company that provides customized pricing incentives or other arrangements justified by a shift in the company's mail operations.

12 Qualifying mail packages for the Staples Agreement include Priority Mail and Priority Mail Express.

■ [REDACTED] .¹³

In FY 2014, the Postal Service received over [REDACTED] from the shippers program.

The Postal Service gives approved shippers commercial base pricing (CBP) or commercial plus pricing (CPP) discounts.

- CBP is a discounted rate offered to customers who buy and print shipping labels with an online postage service provider.
- CPP provides a higher discount than CBP for high volume approved shippers, such as Staples and UPS.

The CBP and CPP discount levels vary based on the mail class, weight, and/or price group.¹⁴ For example, a 5 pound Priority Mail package in Zone 3 could receive a variable discount of up to 26 percent under the CBP program and [REDACTED] .¹⁵ See Table 1 for examples of Priority Mail discounts.

Table 1. Priority Mail Pricing Discounts¹⁶

Priority Mail - Letter, Large Envelopes, or Parcels	Weight	Price for Zone 1&2	Percent Discount for CBP and CPP	Price for Zone 3	Percent Discount for CBP and CPP	Price for Zone 4	[REDACTED]
Priority Mail – Retail	5 lbs.	\$8.95	---	\$9.95	---	\$11.30	■
Priority Mail - Commercial Base	5 lbs.	\$6.78	24%	\$7.33	26%	\$8.42	■
[REDACTED]	■	■	■	■	■	■	■

Source: Postal Service Price List.

Mail Safety and Security Training

We determined Staples employees received mail security and HAZMAT training similar to that of Postal Service retail employees. During the pilot, Staples employees received a 1-day training session,¹⁷ which included sections on mail security and the Postal Service’s HAZMAT guidelines¹⁸ and its Publication 52. Postal Service retail employees must take the *2008 HAZMAT Retail Acceptance* course, which comprises information from the DMM and information concerning hazardous, restricted, and perishable material.

¹³ These discounts are no longer applicable because the pilot ended in August 2014.

¹⁴ The pricing is based on zone, which is the distance between where the package is sent and received. Zones range from Zone 1 (local, close to you) to Zone 9 (very far away from you). The farther the mail goes, the more zones it crosses and the higher the postage cost.

¹⁵ [Postal Service Commercial Plus Pricing](#) as of November 4, 2014.

¹⁶ Pricing based on the *Postal Service Price List* Notice 123, effective September 7, 2014.

¹⁷ *Retail Partner Expansion Program Retail Associate Training Manual and Product Guide*.

¹⁸ *Domestic Mail Manual*.

Staples was responsible for taking reasonable steps to protect customers' PII, such as payment card information.

In September 2014, Staples announced a breach in its information systems that may have affected more than 1.16 million customer payment cards.

Handling Customer Personally Identifiable Information

We determined Staples was responsible for taking reasonable steps to protect customers' PII, such as payment card information. Although a breach of Staples' information system occurred during the pilot, Staples took actions to minimize the impact on its customers. In addition, the pilot agreement allowed the Postal Service and Staples to exchange information concerning Postal Service transactions at Staples stores. Customer traffic, customer purchases, promotional activities concerning the pilot, and incremental revenue are examples of the data the Postal Service and Staples exchanged to evaluate the potential of moving into the second phase of the agreement. However, the pilot was canceled before the second phase was implemented.

During the pilot, Staples used the Postal Service's Contract Access Retail System (CARS)¹⁹ to weigh and rate the mail and used its own system to process customer payments. Staples was responsible for customers' PII and for taking reasonable steps to protect this data.

In September 2014, Staples announced a breach in its information systems that may have affected more than 1.16 million customer payment cards. In response to this breach, Staples offered free identity protection services to all customers who used their payment cards at any of the affected stores during the relevant times.²⁰ The services included credit monitoring, identity theft insurance, and a free credit report.

Approved shippers do not use the CARS system and the Postal Service removed these devices from Staples retail locations after the pilot was canceled. Approved shippers are responsible for maintaining the privacy of their customers' PII and customers at approved shipper locations are not considered Postal Service customers unless they purchase products at a postal counter or are using a postal retail system.

Marketing Arrangements

We determined that approved shippers may use Postal Service promotional materials and logos to advertise postal products and services. In addition, some larger approved shippers joined the Postal Service in marketing efforts related to the shipper program. For example:

- In 2012, Office Depot advertised that customers could buy postal products and services at its retail stores and save a trip to the Post Office. This initiative was specific to the Approved Shippers Program.
- In October 2014, Staples participated in a direct mail marketing initiative with the Postal Service. This initiative occurred outside of the Approved Shippers Program and was designed to increase foot traffic and the use of postal products and services at 45 additional Staples locations. Staples issued direct mail offering 20 percent discount coupons on postal products at its locations. The coupons were not valid at Postal Service locations.

In both initiatives, the Postal Service paid the delivery costs for the direct mail²¹ and the retailers paid to produce and print the advertisements. Staples was responsible for the promotional discounts given to its customers.

¹⁹ A Postal Service device suppliers use to weigh and rate mail, and report transactional data.

²⁰ This breach affected one Staples location that participated in the pilot.

²¹ We confirmed this is an allowable practice.

We did not identify a direct correlation between the pilot program and the approved shipper agreement that caused a reduction in postal retail labor hours.

From FY 2012 through FY 2014, retail labor hours steadily declined in the six districts located near former pilot Staples stores.

Retail Labor Hours

We did not identify a direct correlation between the pilot program and the approved shipper agreement that caused a reduction in postal retail labor hours. In October 2012, the Postal Service issued the *Postal Plan Instructional Memorandum*. The purpose of the memorandum was to modify post offices' workloads with community involvement in an effort to realign staff and retail hours based on workload.

From FY 2012 through FY 2014, retail labor hours steadily declined in the six districts located near former pilot Staples stores. Three of the districts showed small increases from FYs 2013 and 2014. There were too many variables, such as reduction in mail volume, overtime, and increased use of USPS.com, to correlate retail labor hour reductions with the former Staples pilot (see results in Figure 2). Regardless, post offices are required to post alternate access points in their lobbies to give customers options for purchasing postal products and services.²²

Figure 2. Retail Labor Hours by District



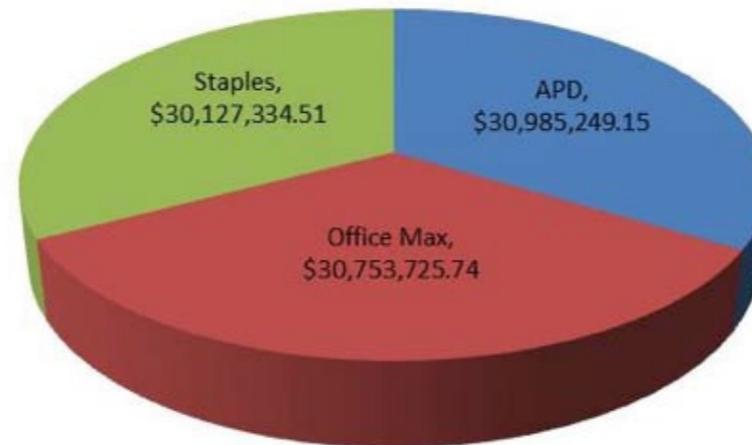
Source: OIG analysis.

²² *Steps to Success* procedures guide for the WTIL initiative, dated 2005.

Purchasing Practices for Office Supplies

We did not identify any evidence to substantiate the claim that the Postal Service directed employees to purchase office supplies exclusively from Staples. We analyzed the Postal Service's spending trends for its three largest office supply vendors – American Product Distributors (APD), OfficeMax, and Staples – and determined spending was comparable, with the Postal Service purchasing more office supplies from APD than the other two vendors between April 1, 2012, and April 30, 2014. Total purchases from the three vendors during this period are included in Figure 3.

Figure 3. Total Postal Service Office Supply Vendor Purchases



Source: OIG analysis.

We did not identify any evidence to substantiate the claim that the Postal Service directed employees to purchase office supplies exclusively from Staples.

Recommendation

We recommend management develop formal policies and procedures for overseeing the Approved Shippers Program including roles, responsibilities, and a verification process for performing reviews of approved shippers.

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

1. Develop formal policies and procedures for overseeing the Approved Shippers Program, including roles, responsibilities, and a verification process for performing reviews.

Management's Comments

Management generally agreed with the findings, agreed with the recommendation, but disagreed with the \$52,773,978 in replacement costs for potential damages to Postal Service facilities due to hazardous mail entering the mailstream. Management stated that they have asked to review the key statistical model to better understand how the assets at risk were calculated. They also stated there are a number of policies and procedures in place to address hazardous material in the mail beyond the point of induction and that these programs work to keep the mail safe for employees, customers, and retail partners.

Regarding recommendation 1, management stated it has taken action to strengthen its policies and procedures. Specifically, management stated it:

- Established training requirements and certification instructions relating to mail security for both retail partners and host administrative offices. Each retail partner received a training package and management is verifying that the training is complete. Management intends to conduct this certification bi-annually.
- Is developing a formal policy and procedure governing the Approved Shipper Program.

Management's target implementation date is October 1, 2015.

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

Evaluation of Management's Comments

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

Regarding management's disagreement with the assets at risk, we used a statistical model that conservatively calculated the value of facility replacement costs. These costs were based on the number of identified occurrences where approved shippers did not always comply with mail security requirements and accepted or were willing to accept packages without knowing the contents. We have also provided management the methodology used to calculate assets at risk and the details of each facility.

Management stated there are policies and procedures in place to address HAZMAT in the mail. We did not evaluate the effectiveness of security policies for mail already in the mailstream. Our scope focused on mail security controls during the mail acceptance process. Without strong controls over this process, the Postal Service is at an increased risk of HAZMATs entering the mail stream.

The OIG considers the recommendation significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. This recommendation 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.

Appendices

*Click on the appendix title
to the right to navigate to
the section content.*

Appendices.....	15
Appendix A: Additional Information	16
Background	16
Objectives, Scope, and Methodology.....	17
Prior Audit Coverage	18
Appendix B: Management’s Comments.....	19

Appendix A: Additional Information

Background

In August 2013, the Postal Service entered into a pilot with Staples to test offering mail and shipping services at large retail locations. Staples received a percentage of sales for particular mail categories as an incentive for selling postal products and services.

The pilot detailed information about training requirements, acceptance of dangerous mail, and the sanctity of the mail. During the pilot, the APWU highlighted concerns regarding:

- The ability of Staples to secure the mail.
- The level of compensation and discounts Staples received.
- Handling customer PII.
- The selection process for the pilot.
- Reducing retail labor hours near Staples locations.
- Postal Service practices for purchasing office supplies from Staples.

Based on terms in the agreement, which allowed for unilateral termination of the pilot for no reason, the Postal Service canceled the pilot in August 2014. Subsequently, the Postal Service decided to make Staples a part of the Approved Shippers Program.

Approved shippers are packaging and shipping retailers offering postal products and services along with products from competitors such as FedEx and UPS. The Approved Shippers Program expands customer access to Postal Services by making them available in more locations and for extended hours. License agreements allow approved shippers to display postal signage promoting postal products and services. Approved shippers do not receive compensation from the Postal Service; rather, they receive pricing discounts for postal products and may add a surcharge to established retail prices to generate profits.

As of August 2014, the Postal Service had over 6,400 approved shippers across the U.S. Participants range from a single location to retailers with more than 2,000 locations. In FY 2014, the Approved Shippers Program generated over ██████████ in revenue for the Postal Service by enabling customers to mail letters or ship packages from alternate locations close to where they live, work, and shop. The Approved Shippers 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.

Objectives, Scope, and Methodology

Our objectives were to determine whether there is adequate oversight of the Postal Services Approved Shippers Program and evaluate whether the new Staples Approved Shipper Agreement is consistent with other approved shipper agreements.

To accomplish our objectives we:

- Statistically sampled 107 of 6,440 approved shipper locations for review.
- Evaluated the safety and security of the mail at the 107 locations by:
 - Using the quarterly review checklist developed by the Postal Service to evaluate shippers based on license agreement requirements for customer service, professionalism, and mail security.
 - Mailing seven packages at seven approved shippers' locations in the Atlanta, GA; San Diego, CA; and Western PA, districts to determine whether they would accept packages without knowing their contents.
- Compared and analyzed the Staples approved shippers' license agreement with the UPS approved shippers' licensing agreement.
- Obtained an understanding of the CPP discount Staples receives and compared it to the discounts of other approved shippers.

We conducted this performance audit from May 2014 through May 2015, 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 8, 2015, and included their comments where appropriate.

We obtained approved shipper information from the National Meter Accounting and Tracking System²³ and compared the data to the sites reviewed. We determined that the data were sufficiently reliable for the purposes of this report. We also obtained the dollar amount for office supply purchases from the Contract Authoring and Management System²⁴ and the Enterprise Data Warehouse²⁵; and obtained retail associate actual labor hours from eFlash²⁶ data extracts. We did not review the reliability of the labor hours or purchase data since there were no findings or recommendations regarding these areas.

²³ Tracks postage meters, PC postage, customers, settings, and usage. Data reported in this application is transmitted to the Postal Service by the postage meter providers.

²⁴ A Postal Service application that provides comprehensive management for supplies and services contracts.

²⁵ A single repository for managing all of the Postal Service's data assets.

²⁶ A weekly operating reporting management system. It combines data from Delivery, Mail Processing, Employee Relations, Labor Relations, and Finance.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Contract Postal Units: Analysis of Location, Service, and Financial Characteristics</i>	GAO-13-41	11/14/2012	None
<p>Report Results: The Government Accountability Office (GAO) analyzed how contract postal units (CPU) supplement the Post Office network, revenue from CPUs and their compensation from FY 2007 to 2011, and challenges the Postal Service may face if it increases its use of CPUs. The report did not include any recommendations.</p>			
<i>Closure of Contract Postal Units</i>	CI-MA-12-001	8/16/2012	\$1,423,289
<p>Report Results: The OIG examined the impact of closing 20 CPUs as agreed to as part of the 2010-2015 APWU collective bargaining agreement. The report identified potential loss of revenue and other customer inconveniences such as changing Post Office box numbers, delivery options, and traveling distances to obtain service. The report did not include any recommendations.</p>			
<i>U.S. Postal Service: Action Needed to Maximize Cost-Saving Potential of Alternatives to Post Offices</i>	GAO-12-100	11/17/2011	None
<p>Report Results: The GAO found the Postal Service had expanded access to its services through alternatives to post offices. Retail alternatives offer service in more locations and for longer hours to enhance convenience for many customers, but certain characteristics of these alternatives could be problematic for others. The GAO recommended, and the Postal Service agreed, developing and implementing a retail network strategy to address customer access to both post offices and retail alternatives.</p>			

Appendix B: Management's Comments

KELLY M. SIGMON
VICE PRESIDENT
RETAIL AND CUSTOMER SERVICE OPERATIONS



May 13, 2015

LAURIE DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Audit Report – Oversight of the Approved Shippers Program
(Report Number SM-AR-15-DRAFT)

The Postal Service does not agree with all of the OIG findings in this audit. Specifically, we do not agree with the monetary value assessment of the revenue at risk. On several occasions, we have asked to review the key statistical model to better understand how the revenue at risk was calculated. In addition, there are currently a number of policies and procedures in place to address hazardous material in the mail beyond the point of induction. Overall these programs work together in keeping the mail safe for our employees, our customers, and our retail partners.

During the last six months, we have taken a number of steps to improve the Approved Shipper Program governance, which we have highlighted in our response below.

OIG Recommendation:

OIG recommended management develop formal policies and procedures for overseeing the Approved Shippers Program including roles, responsibilities, and a verification process for performing reviews of approved shippers.

Management Response/Action Plan:

The Postal Service agrees with the OIG recommendation that management develop formal policies and procedures for overseeing the Approved Shippers Program including roles, responsibilities, and a verification process for performing reviews of approved shippers. The program office has taken aggressive steps to address the OIG findings to strengthen our policies and procedures:

KELLY M. SIGMON
VICE PRESIDENT
RETAIL AND CUSTOMER SERVICE OPERATIONS



1. The program office has set forth training requirements and certification instructions for both the retail partner and the host administrative office relating to the security of the mail. In December 2014, every retail partner received a training package. We are currently completing the final verification of this training. The Postal Service intends to conduct this certification on a bi-annual basis.
2. The program is developing a formal policy and procedure governance document as it relates to the Approved Shipper Program.

Target Implementation Timeline:

October 1, 2015

Responsible Official:

Kelly M. Sigmon, Vice President, Retail and Customer Service Operations

A handwritten signature in cursive script that reads "Kelly M. Sigmon".

Kelly M. Sigmon
Vice President
Retail and Customer Service Operations

cc: Manager, Corporate Audit Response Management



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

Contact us via our [Hotline](#) and [FOIA](#) forms, follow us on social networks, or call our Hotline at 1-888-877-7644 to report fraud, waste or abuse. Stay informed.

1735 North Lynn Street
Arlington, VA 22209-2020
(703) 248-2100