



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

**Revenue  
Protection  
Rules**

**Management  
Advisory Report**

Report Number  
MS-MA-15-001

October 3, 2014





# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

## Highlights

***The Postal Service does not have a comprehensive, strategic approach to revenue protection. Revenue protection is provided by various groups whose missions and focuses are limited.***

### Background

Revenue protection has become increasingly critical to posts' survival as mail volumes decline worldwide. The Universal Postal Union estimated that posts lose 5 to 10 percent of postage revenue because of fraud, poor mail acceptance, sampling and billing processes, or unreliable revenue collection technology.

Revenue protection rules are the processes, procedures, roles, responsibilities, and requirements related to assuring and protecting U.S. Postal Service revenue. While all Postal Service employees are responsible for preventing revenue loss, various groups have revenue protection responsibilities, including Financial Testing and Compliance; Field Remediation; the newly established Revenue Assurance group; and the U.S. Postal Inspection Service's Revenue, Product, and Global Security group.

Our objective was to evaluate Postal Service rules related to revenue protection and to determine whether opportunities exist for improvement.

### What The OIG Found

The Postal Service does not have a comprehensive, strategic approach to revenue protection. Revenue protection is provided by various groups whose missions and focuses are limited. For example, the Financial Testing and Compliance group tests

internal controls to ensure the accuracy of financial statements, the Field Remediation group identifies and mitigates Sarbanes-Oxley weaknesses, and the Postal Inspection Service Revenue, Product, and Global Security group identifies systemic risk from weak revenue protection controls.

The Postal Service lacks a permanent group dedicated to coordinating and overseeing revenue protection activities. The existing Revenue Assurance group consists of employees on temporary assignment who have other responsibilities in addition to revenue assurance, and the group's future is uncertain. Industry best practices suggest that agency-wide coordination is critical in reducing unnecessary overlap of key revenue protection activities. Identifying a permanent group to oversee revenue protection activities would mitigate gaps in and duplication of revenue protection activities, leverage Postal Service resources and increase the effectiveness of revenue protection efforts.

The Postal Service also lacks critical information on the amount and sources of shortpaid postage. Prior U.S. Postal Service Office of Inspector General audit reports identified Postal Service internal controls were inadequate to identify shortpaid and unpaid postage. The Postal Service continues to address revenue protection through technological initiatives; however, revenue leakage will continue to occur until automated verification procedures replace current manual processes.



# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

Postal Service officials explained that the process for identifying shortpaid is difficult and cost-prohibitive and that no single group is responsible for this effort.

The first step in mitigating revenue leakage, including shortpaid postage, is to identify its source and magnitude. Currently, the Postal Service uses data provided by Statistical Programs from Origin Destination Information System-Revenue, Pieces and Weight tests to project shortpaid postage of \$432 million in fiscal year (FY) 2013. However, the data are not considered statistically valid for shortpaid estimates and are only used to gauge potential revenue leakage. Further, this estimate does not include commercial mail.

This lack of data impedes the Postal Service from developing effective revenue protection rules and measuring program effectiveness. Applying the Universal Postal Union's 5 percent estimate to business and retail mail that was not verified for sufficient postage through automation in FY 2013, we estimate that \$1.2 billion of revenue was at risk of revenue leakage.

### What The OIG Recommended

We recommended the Postal Service develop a strategy to coordinate revenue protection efforts and explore cost effective methods for estimating shortpaid revenue for business mail.

# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

October 3, 2014

**MEMORANDUM FOR:** MAURAA. McNERNEY  
VICE PRESIDENT, CONTROLLER

E-Signed by Janet Sorensen  
VERIFY authenticity with eSign Desktop  


**FROM:** Janet M. Sorensen  
Deputy Assistant Inspector General  
for Revenue and Resources

**SUBJECT:** Management Advisory Report – Revenue Protection  
Rules (Report Number MS-MA-15-001)

This management advisory report presents the results of our review of the U.S. Postal Service Revenue Protection Rules (Project Number 14RG014MS000).

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

Attachment

cc: Corporate Audit and Response Management

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# Findings

**Revenue protection rules are the processes, procedures, roles, responsibilities, and requirements related to assuring and protecting Postal Service revenue. Our objective was to evaluate Postal Service rules related to revenue protection and to determine whether opportunities exist for improvement.**

## Introduction

This report presents the results of our self-initiated review of the U.S. Postal Service's revenue protection rules (Project Number 14RG014MS000). Revenue protection rules are the processes, procedures, roles, responsibilities, and requirements related to assuring and protecting Postal Service revenue. Our objective was to evaluate Postal Service rules related to revenue protection and to determine whether opportunities exist for improvement. See [Appendix A](#) for additional information about this review.

Revenue protection has become increasingly critical to posts' survival as mail volume declines worldwide. The Universal Postal Union (UPU) estimated that posts lose 5 to 10 percent of postage revenue as a result of fraud, poor mail acceptance, sampling and billing processes, or unreliable revenue collection technology.<sup>1</sup> The Postal Service directs most of its revenue protection efforts to [REDACTED], which accounts for about [REDACTED] of total revenue. For example, of \$67 billion in total revenue generated by the Postal Service during fiscal year (FY) 2013, [REDACTED] was [REDACTED] and [REDACTED] was [REDACTED].

Recent and planned efforts to expand the use of technology through automation will increase opportunities to improve revenue assurance capabilities. Seamless Acceptance and the Passive Adaptive Scanning System (PASS)<sup>2</sup> will improve revenue protection by identifying and notifying delivery unit employees of packages with potential shortpaid postage. Currently, the Postal Service uses data provided by Statistical Programs from Origin Destination Information System-Revenue, Pieces and Weight (ODIS-RPW) tests to project shortpaid postage, which identified \$432 million in FY 2013.<sup>3</sup> However, the data are not considered statistically valid for shortpaid estimates and are only used to gauge potential revenue leakage. Further, this estimate does not include commercial mail.

The Postal Service must comply with the Sarbanes-Oxley Act of 2002 (SOX),<sup>4</sup> which includes an annual assessment of financial internal controls. Although SOX controls concentrate on financial statement accuracy, they also provide for revenue protection. The controller's SOX Program Management Office and Postal Service process owners<sup>5</sup> are responsible for identifying revenue protection control gaps.

While all Postal Service employees are responsible for preventing revenue leakage, the Postal Service has several groups and program offices with specific revenue protection responsibilities. These groups include Financial Testing and Compliance; Field Remediation; Revenue Assurance; and the U.S. Postal Inspection Service's Revenue, Product, and Global Security group, which reports to the chief postal inspector.

<sup>1</sup> Union Postale, *Revenue Protection Takes Center Stage*, March 2011, Berne, Switzerland.

<sup>2</sup> Seamless acceptance is the automation of mail verification for mailings from business mailers who apply unique (full service) Intelligent Mail barcodes (IMbs) on mailpieces, trays, sacks, pallets, and other containers. PASS is used in delivery units and offers a control point to capture package data and address the issue of shortpaid and unpaid PC Postage in the retail setting.

<sup>3</sup> The purpose of ODIS-RPW is to collect data on mail revenue, pieces, and weight for planning and reporting purposes.

<sup>4</sup> Sarbanes-Oxley Public Company Accounting Reform and Investor Protection Act of 2002, as it is known in the U.S. Senate. (It is also known in the U.S. House of Representatives as the Corporate and Criminal Fraud Accountability Act of 2002) Pub. L. No. 107-204, 116 Stat. 745 (July 30, 2002), codified at 15 U.S.C. § 7262.

<sup>5</sup> Process owners are responsible for the business process components, related to internal controls, and any identified control gaps within their assigned portion of the process.

## Conclusion

The Postal Service does not have a comprehensive, strategic approach to revenue protection. Revenue protection is provided by various groups whose missions and focuses are limited. For example, the Financial Testing and Compliance group tests internal controls to ensure accuracy of financial statements, the Remediation group identifies and mitigates SOX weaknesses, and the Postal Inspection Service Product and Global Security group identifies systemic risk from weak revenue protection controls. This occurred because the Postal Service lacks a permanent group dedicated to coordinating and overseeing revenue protection activities. The Postal Service has recognized the need for better coordination of revenue protection activities and in January 2014 reinstated the Revenue Assurance group<sup>6</sup> under the chief financial officer to coordinate revenue protection efforts agency wide. However, the Revenue Assurance group consists of employees on temporary assignment who have other responsibilities in addition to revenue assurance, and the group's future is uncertain.

Best practices in analyzing and resolving revenue leakage issues have shown that agency-wide coordination is critical in reducing unnecessary overlap of key revenue protection activities. Identifying a permanent group to oversee revenue protection activities would mitigate gaps in and duplication of revenue protection activities, leverage Postal Service resources and increase the effectiveness of revenue protection efforts.

The Postal Service also lacks critical information on the amount and sources of shortpaid postage. Prior U.S. Postal Service Office of Inspector General (OIG) audit reports identified Postal Service internal controls were inadequate to identify shortpaid and unpaid postage. The Postal Service continues to address revenue protection through technological initiatives, however, revenue leakage will continue to occur until automated verification procedures replace current manual processes. Postal Service officials explained that the process for identifying shortpaid is difficult and cost-prohibitive and that no single group is responsible for this effort.

The first step in mitigating revenue leakage, including shortpaid postage, is to identify its source and magnitude. Best practices for revenue protection begin with a framework to measure and identify leakage. Currently, the Postal Service uses data provided by Statistical Programs from ODIS-RPW tests to project shortpaid postage of \$432 million in FY 2013. However, the data are not considered statistically valid for shortpaid estimates and are only used to gauge potential revenue leakage. Further, this estimate does not include commercial mail. This lack of data impedes the Postal Service from developing effective revenue protection rules and measuring program effectiveness. Applying the UPU's 5 percent estimate to business and retail mail that was not verified for sufficient postage through automation in FY 2013, we estimate that \$1.2 billion of revenue was at risk due to revenue leakage,<sup>7</sup> which represents 1.8 percent of total revenue.

## Revenue Protection Coordination

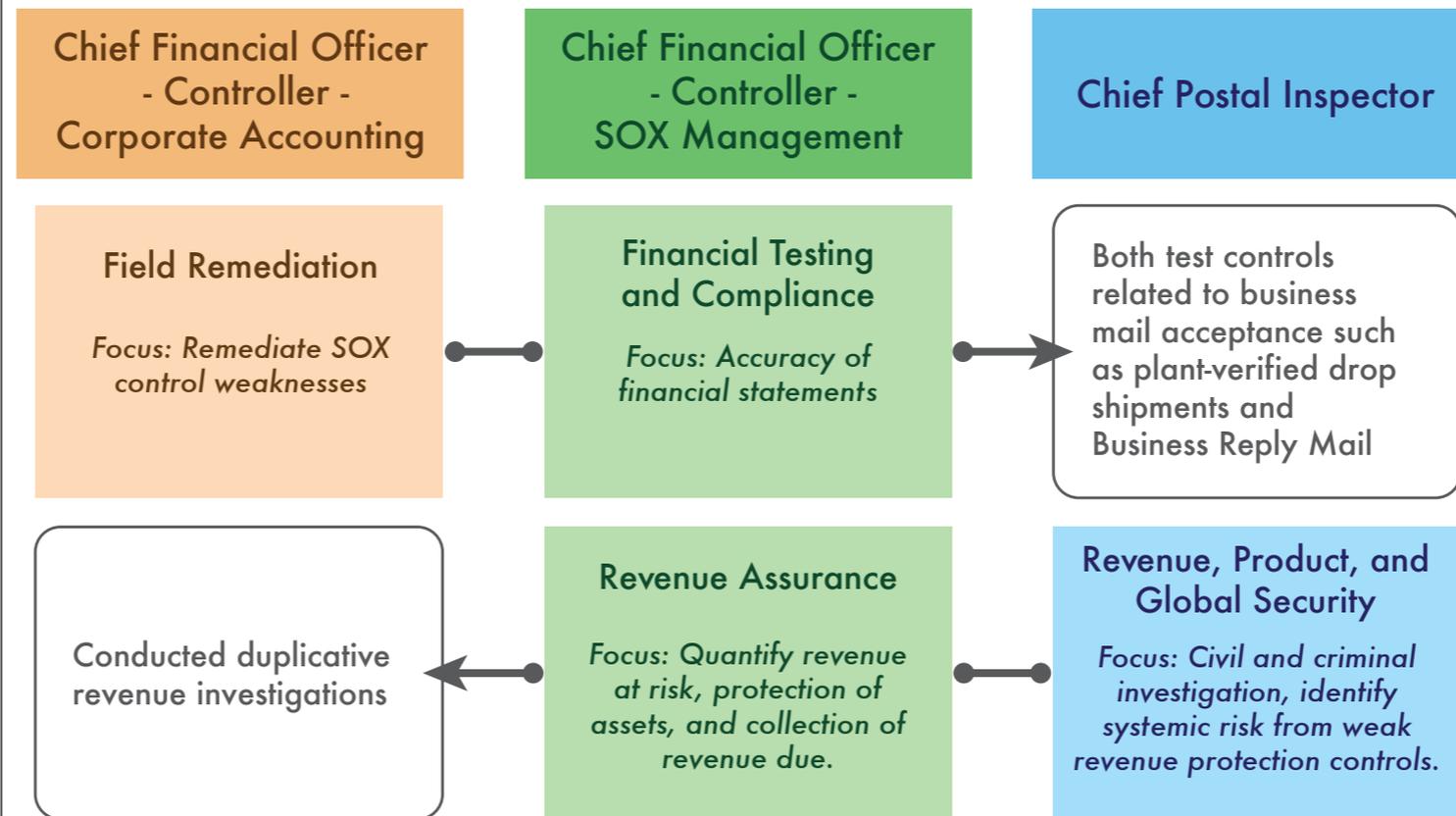
The Postal Service does not have a comprehensive, strategic approach to revenue protection. Revenue protection is provided by various groups, including Financial Testing and Compliance, Field Remediation, and the Postal Inspection Service, whose missions and focuses are limited (see [Table 1](#)).

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<sup>6</sup> The Revenue Assurance group was created in 1997 and disbanded in 2003.

<sup>7</sup> Applying the 5 percent UPU figure to the Postal Service's \$67.3 billion revenue in FY 2013 equates to \$3.4 billion of estimated shortpaid postage. However, based on recent technological initiatives to automate verification and improve revenue assurance capabilities, we reduced this calculation to \$1.2 billion.

**Table 1. Postal Service Groups with Revenue Protection Responsibilities**



Source: OIG summary of Postal Service data.

While these groups have different focuses, some responsibilities overlap or gaps exist.<sup>8</sup> For example:

- The Revenue, Product, and Global Security group and the Revenue Assurance group conducted duplicative revenue investigations. Specifically, a PC Postage<sup>9</sup> customer was submitting shortpaid parcels for shipment; however, neither group was aware of the overlapping efforts during initial investigations. Both groups addressed this issue and implemented procedures to avoid future overlap.
- The Financial Testing and Compliance group and the Remediation group both test controls related to business mail acceptance such as plant-verified drop shipments and Business Reply Mail.

Designating a permanent group to oversee revenue protection activities would mitigate gaps in communication and duplication of revenue protection activities, leverage Postal Service resources and increase the effectiveness of revenue protection efforts. Until the Postal Service established the Revenue Assurance group in January 2014, it had no single group responsible for revenue leakage. Recognizing this gap, the Revenue Assurance group began developing a collaborative network with other groups by hosting weekly meetings.

<sup>8</sup> According to the U.S. Government Accountability Office (GAO), overlap occurs when multiple programs have similar goals or activities and may lead to inefficiencies (2014 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits. GAO-14-343SP, April 2014).

<sup>9</sup> A hardware/software-based postage evidencing system offered by Postal Service-authorized providers (commercial vendors) for purchasing and printing Information-Based Indicia postage from a personal computer, a printer, and Internet access. PC Postage product/service offerings are also available online through USPS.com.

**The Postal Service lacks critical information on the amount and sources of shortpaid postage for business mail.**

In its first 8 months, the Revenue Assurance group recovered about [REDACTED] in revenue as it developed a collaborative framework among all groups tasked with revenue protection responsibilities. As a result, the groups have avoided duplicate investigations and improved coordination. In addition, Revenue Assurance personnel were instrumental in moving forward Postal Service Delivering Results, Innovation, Value, and Efficiency (DRIVE)<sup>10</sup> Initiative 46 to address the reduction and collection of primarily retail revenue shortpaid parcels. However, the Revenue Assurance group consists of managers detailed from other areas who continue to have responsibilities beyond revenue assurance, and the group is authorized only through the end of the fiscal year and its continuation is uncertain.

Federal agencies use a variety of mechanisms to implement intra-agency collaborative efforts, such as appointing a coordinator to develop policy, implement programs, and improve oversight, information sharing, staffing, and training.<sup>11</sup> Best practices suggest that agency-wide coordination is critical in reducing unnecessary overlap and identifying potential revenue loss.

### Shortpaid Postage Identification

The Postal Service lacks critical information on the amount and sources of shortpaid<sup>12</sup> postage for business mail. Postal Service officials explained that the process for identifying shortpaid is difficult and cost-prohibitive and that no single group is responsible for this effort. In addition, [REDACTED]

[REDACTED] However, prior audits have shown personnel [REDACTED] did not always follow mail acceptance and verification procedures.<sup>14</sup> The Postal Service designed Seamless Acceptance to verify and validate proper mail make-up and postage collection on customer mailings. Revenue leakage will continue to occur until automated verification procedures, such as seamless acceptance, replace current manual processes.

The first step in mitigating revenue leakage, such as shortpaid postage, is to identify its source and magnitude. Best practices for revenue protection begin with a framework to measure and identify leakage.<sup>15</sup> Assessing risk, including the probability and severity of leakage, is essential for determining which resources to use and where to invest in mitigation. No single Postal Service group is tasked with quantifying revenue leakage.

Although the Postal Service has sometimes estimated shortpaid postage, Postal Service managers stated that measuring this form of revenue leakage is difficult and expressed concern about the cost effectiveness of estimating shortpaid postage. However, other posts experienced the same challenge and have taken steps such as forming a cross-functional team to better identify actual sources of leakage,<sup>16</sup> establishing employee verification of postage statements at bulk mail entry units,<sup>17</sup> and creating a full-time team of revenue protection specialists at a main sorting center.<sup>18</sup>

10 Management has developed multiple efforts as part of the DRIVE initiative they use to improve business strategy, development, and execution.

11 *Managing for Results Key Considerations for Implementing Interagency Collaborative Mechanisms*. GAO-12-1022. September 2012.

12 For the purpose of this report we use the term shortpaid as mail that is unpaid or has insufficient postage from whatever causes, such as counterfeit, bypass, and billing and collection.

13 The purpose of ODIS-RPW data is to prepare the RPW report, which is the official summary of Postal Service revenue, volume, and weight, not to project shortpaid postage.

14 [REDACTED] *Mail Verification Procedures* (Report Number MS-AR-10-005, dated August 30, 2010).

15 UPU, Postal Revenue Protection Working Group, *White Paper on Postal Revenue Protection*. CC 2010.1-Doc 3b. January 2010.

16 Correos de Costa Rica.

17 Swiss Post.

18 TTPost (Trinidad and Tobago's post).

This gap impedes the Postal Service from developing effective revenue protection rules and measuring program effectiveness. The UPU suggests about 5 to 10 percent of total revenue is lost as a result of fraud, poor mail acceptance, sampling and billing processes, or unreliable revenue collection technology. We estimate that in FY 2013, \$1.2 billion of revenue was at risk due to revenue leakage.

Recouping revenue or avoiding revenue leakage through effective revenue protection may ward off rate increases and contribute to a healthy, sustainable Postal Service.<sup>19</sup> A process to project shortpaid postage — such as through risk models or statistical sampling — could help identify the size of the revenue protection challenges the Postal Service faces. This, in turn, would help the Postal Service develop effective revenue protection and assurance rules and programs targeted at the areas most vulnerable to revenue leakage.

The Postal Service has advised that its DRIVE 46 initiative addresses shortpaid postage through its goal of 100 percent reduction of short paid parcels and 100 percent collection of short paid revenues where economically feasible. This initiative will identify the root causes for shortpaid postage as well as define, develop, and implement solutions to accurately identify short paid and unpaid parcels by 2015. The initiative will also develop and implement solutions for an automated collection process for shortpaid revenues to be collected from customers by FY 2015. However, focused on parcels only, this initiative does not address shortpaid postage from commercial mail.

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<sup>19</sup> UPU, Postal Revenue Protection Working Group, *White Paper on Postal Revenue Protection*. CC 2010.1-Doc 3b. January 2010.

# Recommendations

***We recommend management develop a strategy to coordinate revenue protection efforts and explore cost effective methods for estimating shortpaid revenue for business mail.***

We recommend the vice president, Controller:

1. Develop a strategy to coordinate revenue protection efforts which will mitigate gaps in communication and duplication of revenue protection activities, leverage Postal Service resources and increase the effectiveness of revenue protection efforts.
2. Explore cost effective methods for estimating shortpaid revenue for business mail.

## Management's Comments

Management partially agreed with the findings and agreed with the recommendations.

Management did not fully agree that there is no comprehensive strategic approach to revenue protection and believes they are approaching revenue assurance strategically and are constantly looking at ways to improve their processes.

Regarding recommendation 1, management agreed and stated they have several pilot programs in place they will use to determine the best way to coordinate revenue protection activities. The target implementation date is September 30, 2015.

Management stated the OIG calculated the report's \$1.2 billion of revenue at risk using a range of values obtained from a 2009 UPU study. The range was developed using a survey of international posts and was weighted heavily with developing nations. Management acknowledged there are potential sources of revenue leakage and has been working to identify and remediate these risks for years. In addition, the Postal Service believes it has processes in place that developing nations do not have to combat the risks and it cannot find a direct correlation between the study's determination that differences in practices and terminology make it difficult to determine true revenue leakage. Management stated their studies indicate less revenue at risk.

Regarding recommendation 2, management agreed and stated they currently have DRIVE initiatives in progress (notably Initiatives 43 and 46) that explore cost-effective ways to estimate shortpaid revenue for business mail. The target implementation date is September 30, 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 recommendations and corrective actions should resolve the issues identified in the report.

Regarding recommendation 1, we recognize the efforts the Postal Service has undertaken to coordinate revenue protection activities, such as reinstating the Revenue Assurance group to coordinate revenue protection efforts agency-wide. However, this group consists of employees on temporary assignment who have other responsibilities in addition to revenue assurance, and the group's future is uncertain. We continue to believe that a comprehensive strategy will mitigate gaps and duplicative efforts related to revenue protection.

Regarding recommendation 2, we note that DRIVE initiatives 43 and 46 primarily concern parcels. The first step in mitigating revenue leakage, including shortpaid postage, is to identify its source and magnitude in all shapes of mail.

Regarding the \$1.2 billion of revenue at risk, in our analysis we excluded revenue at risk with the potential for automated verification processes, such as seamless acceptance. Our analysis included the segment of mail with the highest risk, [REDACTED]. Moreover, we used the most conservative estimate of the value range in the UPU report.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

# Appendices

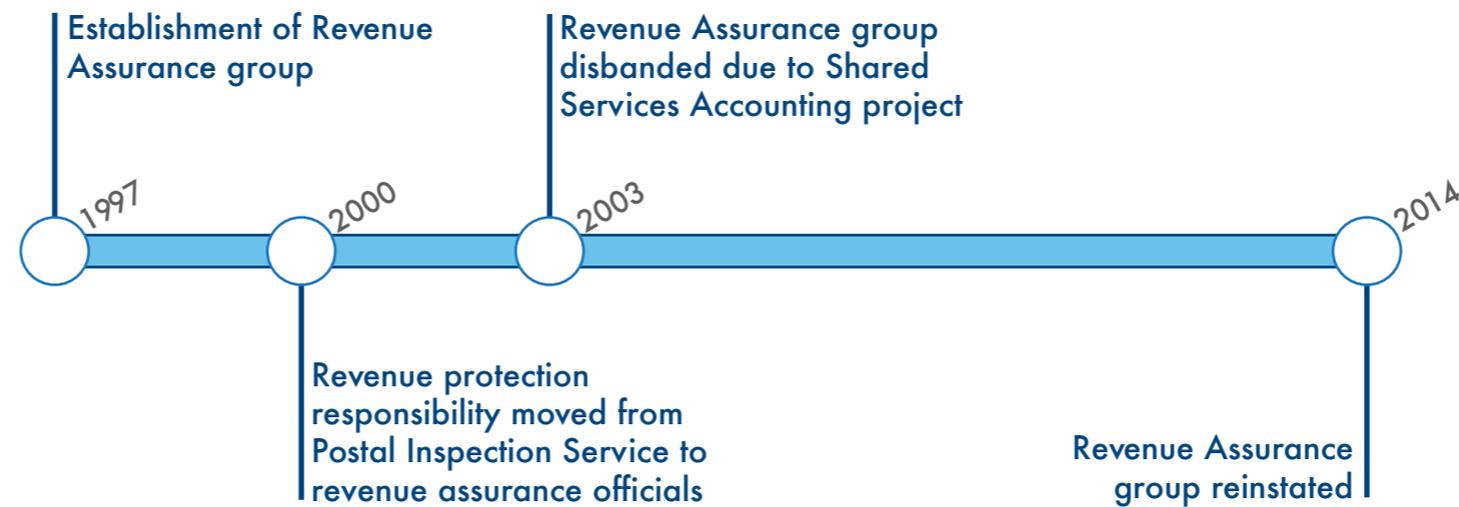
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## Appendix A: Additional Information

### Background

With the establishment of the Revenue Assurance group in 1997, the Postal Service's chief financial officer and executive vice president began managing the revenue assurance process, which consists of identifying, adjudicating, and collecting deficiencies. During 2000, the Postal Service moved the revenue protection responsibility from the Postal Inspection Service, which had performed revenue audits until 1997, to revenue assurance officials. Postal Service management made this transfer to allow the Postal Inspection Service to focus on criminal activities instead of audit-related work. The Postal Service disbanded the Revenue Assurance group in 2003 due to the Shared Services Accounting project to streamline accounting processes and reinstated it in 2014.



The Postal Accountability and Enhancement Act of 2006 required the Postal Service to comply with Section 404 of SOX, which includes an annual assessment of financial internal controls. Any ineffective or missing internal controls, called control gaps, affect financial reporting. Control gaps could cause financial reports to be misleading. These ineffective or missing controls can result in a material weakness<sup>20</sup> or significant deficiency<sup>21</sup> in an entity's financial statement.

The Controller's Office monitors the financial health of the Postal Service through the timely, accurate preparation of all historical information. It also drives enforcement of, and ensures compliance with, key regulatory standards that affect financial performance, such as SOX. Process owners are critical to Postal Service SOX compliance. Process owners own the business process components, related to internal controls, and any identified control gaps within their assigned portion of the process. They also maintain accountability over the business process and internal controls, including controls within related information technology applications.

The SOX organization is composed of several functional groups, including:

- The Postal Service Financial Testing and Compliance group performs the field testing and documentation of all key field financial internal controls that fall under SOX compliance requirements, including business mail acceptance, to identify exceptions where the controls are not operating as designed.

<sup>20</sup> Error or misstatement in a financial report significant enough that when corrected, impacts the way financial standings appear.

<sup>21</sup> Control gap or aggregation of control gaps within a significant control that is great enough to possibly result in financial reporting misstatement.

- The Postal Service Field Remediation group performs the evaluation and analysis necessary to validate the remediation of design or operating effectiveness gaps and monitor field level compliance with key financial controls. The group check business mail acceptance controls based upon largest revenue and volume, thresholds, and past performance.
- The Revenue Assurance group's purpose is to improve the financial position of the Postal Service by protecting assets and identifying and collecting all revenue due. The group may receive PC Postage or business mail acceptance leads via email and the team assesses and pursues any related revenue deficiencies.

The Postal Inspection Service's Revenue, Product, and Global Security group focuses primarily on criminal and civil investigations of those who intentionally deprive the Postal Service of revenue. It also identifies systemic risks from weak controls. The manager of Revenue Fraud and Analysis generates leads and reports from data exceptions. When the group identifies discrepancies, it notifies field inspectors who determine whether an investigation is warranted. The group investigates revenue protection issues such as occurrences of PC Postage and business mail acceptance fraud schemes; calculates the loss to the Postal Service; and pursues each offender with administrative, civil, or criminal action.

### **Objective, Scope, and Methodology**

Our objective was to evaluate Postal Service rules related to revenue protection and to determine whether opportunities exist for improvement.

To accomplish our objective we reviewed criteria, mission statements, policies and procedures, and other supporting documents to evaluate Postal Service rules related to revenue protection and to determine whether opportunities exist for improvement. We interviewed Postal Service managers responsible for revenue protection rules to understand the existing revenue protection efforts. We reviewed UPU and GAO reports to identify best practices for revenue protection and coordination among groups. We interviewed an industry expert to discuss revenue protection best practices.

We conducted this review from February through October 2014, in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on September 5, 2014, and included their comments where appropriate.

We assessed the reliability of computer-generated data by interviewing Postal Service officials. We determined that the data were sufficiently reliable for the purposes of this report.

## Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Strategic Approaches to Revenue Protection</i>	<a href="#">MS-AR-11-007</a>	9/30/2011	None

**Report Results:** Postal Service officials collaborate and communicate regularly with internal and external stakeholders and a wide variety of program groups address revenue-protection issues and strategies. 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 IMb technologies replace current manual processes. Basic Service IMb and nonautomated mail will continue to require costly manual revenue protection procedures until additional automated technologies are developed. We recommended management work with a broad group of internal and external stakeholders to prepare for streamlining the entry of business mail, accelerate the timeline for streamlined acceptance and verification, and seek to leverage technology to provide revenue protection for Basic Service intelligent mail and nonautomated volumes. Management agreed with the recommendation and disagreed with the monetary impact based on our methodology.

## Appendix B: Management's Comments

MAURA A. MCNERNEY  
VICE PRESIDENT, CONTROLLER



September 25, 2014

LORI LAU DILLARD  
(A) DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Management Advisory Report--Revenue Protection Rules (Report Number MS-MA-14-DRAFT)

This is in response to the subject draft management advisory report and recommendations by the Office of the Inspector General. The recommendations and our responses are listed below.

Management agrees with both recommendations and has been actively pursuing both efforts through Lean Six Sigma Projects, Delivering Results, Innovation, Value and Efficiency (DRIVE) initiatives, and process improvements. We do not totally agree that the Postal Service does not have a comprehensive, strategic approach to revenue protection. As is evidenced by our activities in this area, management believes they are approaching revenue assurance in a strategic manner and are constantly looking for ways to improve the processes.

This report's monetary impact identifies \$1.2 billion Revenue at Risk, which by definition includes mailers using alternative providers as well as shortpaid postage. The amount was calculated using a range of values obtained from a Universal Postal Union (UPU) study conducted in 2009. The range was developed using a survey of international posts and was weighted heavily with developing nations. Possible areas of leakage included counterfeit postage, bypass mail, shortpaid mail, and payment methods.

Management acknowledges that there are potential sources of revenue leakage and has been working to identify and has remediated these risks for years. However, because the Postal Service has processes in place to combat these potential risks that developing nations do not have and the UPU study's author determination that differences in practices and terminology make it difficult to determine true revenue leakage, we cannot find a direct correlation between the study's conclusions and those of our analysis. Our studies would indicate a smaller amount of revenue at risk.

**Recommendation 1:**

Develop a strategy to coordinate revenue protection efforts which will mitigate gaps in communication and duplication of revenue protection activities, leverage Postal Service resources and increase the effectiveness of revenue protection efforts.

**Management Response/Action Plan:**

Management agrees with this recommendation.

We currently have several pilot programs in progress that will be used to determine the best way to coordinate revenue assurance activities.

**Target Implementation Date:**

The pilots will be evaluated in mid FY 2015 and the results used to determine the strategy on a go forward basis by the end of FY 2015.

**Responsible Official:**

Scott G. Davis, Manager, SOX Management Controls and Integration

**Recommendation 2:**

Explore cost effective methods for estimating shortpaid revenue for business mail.

**Management Response/Action Plan:**

Management agrees with this recommendation.

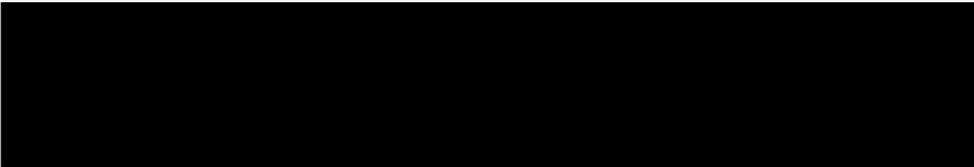
We currently have several DRIVE initiatives in progress (DRIVE 43 and 46 in particular) that include this as part of their roadmaps.

**Target Implementation Date:**

The DRIVE initiatives are currently in progress and the end date is not readily determinable. We believe we will be able to have an effective method developed by the end of FY 2015.

**Responsible Official:**

Maura McNerney, Vice President, Controller



  
Maura A. McNerney

cc: Corporate Audit and Response Management



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