

ePostage Oversight

AUDIT REPORT

Report Number 23-149-R24 | August 8, 2024



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Highlights

Background

ePostage is an electronic postage program that provides small merchants a convenient way to print labels, pay postage, and drop off packages at a post office rather than designated facilities for large customers. The Postal Service collected [REDACTED] billion in ePostage revenue in fiscal year 2023, and future program growth aligns with its *Delivering for America* goals to serve small and medium businesses. Effective ePostage management to verify correct postage and enforce program requirements is critical for the Postal Service to protect revenue and operations and meet its planned goals.

What We Did

Our objective was to evaluate program management and postage verification of ePostage payments. For this audit, we interviewed staff, conducted site visits, and analyzed 592 million ePostage packages shipped from July 2022 to January 2024.

What We Found

The Postal Service did not effectively manage the ePostage program. We identified independent weaknesses in its postage verification system to collect revenue and monitoring program compliance. As a result, it lost estimated annual unrecoverable ePostage revenues of [REDACTED]. Without monitoring compliance, the Postal Service limited its ability to identify potential fraud, ensure transparency, and provide customer service. Overall, we found that these issues occurred because the Postal Service did not have an ePostage program manager assigned to oversee revenue strategy and ensure that monitoring and enforcement consistently occurred.

Separately, the Postal Service's team that identifies lost revenue was not sufficiently detecting merchants that frequently underpaid or enforcing corrective action. While officials stated these shortcomings occurred due to limited resources, the lack of related guidance and automated processes to identify these underpaying merchants and enforce corrective action will threaten future program revenues.

Recommendations and Management's Comments

We made seven recommendations to address the issues identified in the report. Management's comments and our evaluation are at the end of the findings and recommendations. The U.S. Postal Service Office of Inspector General considers management's comments responsive to recommendations 2 through 7 and corrective actions should resolve the issues in the report. For recommendation 1, we acknowledge management's business decision to not pursue past revenue, and closed the recommendation based on actions taken with the issuance of this report. See [Appendix B](#) for management's comments in their entirety.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

August 8, 2024

MEMORANDUM FOR: SHIBANI GAMBHIR
VICE PRESIDENT, SALES INTELLIGENCE

CARA GREENE
VICE PRESIDENT, CONTROLLER

ANGELA LAWSON
VICE PRESIDENT, TECHNOLOGY APPLICATIONS

ELVIN MERCADO
VICE PRESIDENT, RETAIL & POST OFFICE OPERATIONS

JUAN NADAL
EXECUTIVE DIRECTOR, STRATEGIC SALES & ACCOUNT INITIATIVES

MARGARET PEPE
EXECUTIVE DIRECTOR, PRODUCT SOLUTIONS

A handwritten signature in black ink, reading "Amanda H. Stafford", is positioned below the list of recipients.

FROM: Amanda Stafford
Deputy Assistant Inspector General
for Retail, Marketing, and Supply Management

SUBJECT: Audit Report – ePostage Oversight (Report Number 23-149-R24)

This report presents the results of our audit of ePostage Oversight.

All recommendations require U.S. Postal Service Office of Inspector General (OIG) concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations 2 through 7 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. We consider recommendation 1 closed with issuance of this report.

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

Attachment

cc: Postmaster General
Corporate Audit Response Management
Secretary of the Board of Governors

Results

Introduction/Objective

This report presents the results of our self-initiated audit of ePostage Oversight (Project Number 23-149). Our objective was to evaluate program management and postage verification of ePostage payments. See [Appendix A](#) for additional information about this audit.

Background

Included within the U.S. Postal Service's *Delivering for America* 10-year plan to achieve financial sustainability are initiatives to support the small and medium business segment and to grow parcel volume and revenue. ePostage is one program underpinning these efforts, which allows merchants to print shipping labels and drop off packages at post offices, rather than designated facilities required for large business customers. Launched in 2013, the ePostage program generated ■■■ billion in revenue during fiscal year (FY) 2023.

While a few large online retailers dominate the rapidly growing ecommerce industry, there are thousands of smaller merchants that sell goods online to consumers. To reach these smaller merchants, the Postal Service works with a variety of partners or

"middlemen" to support ePostage. These middlemen can include label provider or online marketplaces.¹ This report will focus primarily on the Postal Service's management of ePostage merchants using label providers, which represents 86 percent of the related package volume.

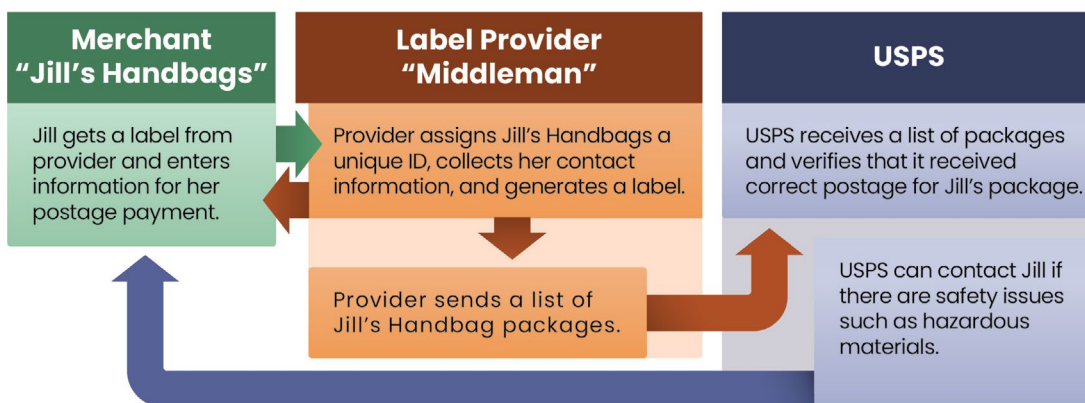
Becoming a Label provider

To become a label provider² for ePostage, a prospective provider must be able to demonstrate to the Postal Service that it can produce a label to specification and transmit merchant and package data.³ When a merchant wants to print labels from a label provider, the label provider is required to assign merchants a unique ID and collect their contact information. The label provider collects the merchant's payment and sends an electronic list of packages or "manifest," contact information, and payment to the Postal Service. Label providers must transmit this critical information to the Postal Service for it to: (1) verify whether it receives correct payments, and (2) have the ability to contact merchants, in case they need to address safety issues, such as a merchant sending hazardous materials. See Figure 1 for a diagram of this relationship.

Figure 1. Relationship of Merchant, Label provider, and USPS

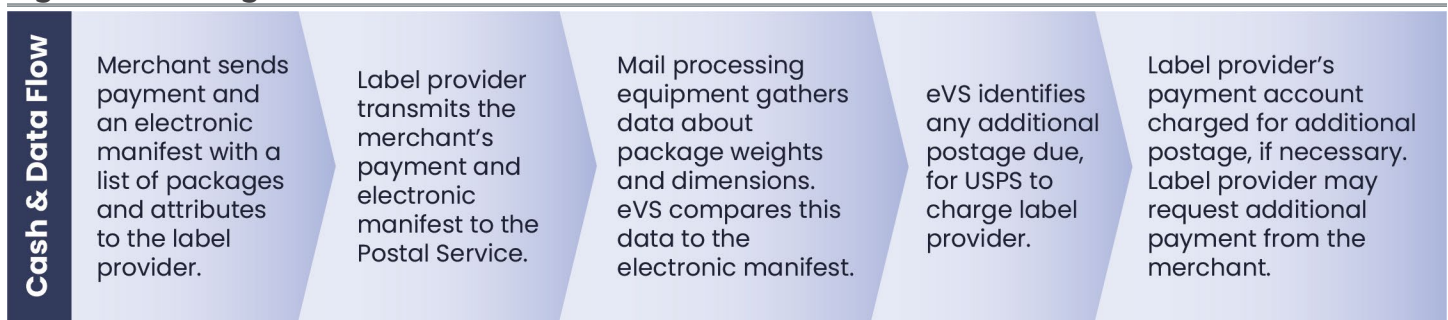
Source: U.S. Postal Service Office of Inspector General (OIG) analysis of Postal Service documentation and processes.

Below is a simplified example of how label providers help serve a fictitious merchant, Jill, who has a handbag shop. These providers should send merchant information about Jill's Handbags to USPS for full visibility between the Postal Service and the merchant.



- ¹ In the context of ePostage, label providers are software platforms that can produce an ePostage label, manifest shipments, and offer access to lower rates via commercial pricing.. Online marketplaces are platforms where merchants can list items for sale and then ship them using an ePostage label.
- ² USPS label creation, manifesting, postage payment, and tracking are managed by a centralized corporate entity (ePostage provider) with shipping labels distributed to individual merchants for entry into the USPS retail network.
- ³ The Postal Service's Sales and Technical Integration group has Specialists (TIS) whose roles are to screen and onboard prospective ePostage customers, develop ePostage technical policies and requirements, and to address technical issues with current ePostage customers. More found on page 4.

Figure 2. ePostage Data and Cash Flow



Source: OIG analysis of ePostage process using eVS, as of June 1, 2024.

Shipping an ePostage Package

When a merchant ships a package with a printed ePostage label, it is also required to print and present a scan form⁴ if they have three or more packages. This form helps streamline the hand-off of packages from the merchant to the Postal Service and link all the packages in a shipment to one scannable form. The merchant then has the option to either request a carrier pickup or drop off their package at a post office or collection box, where a carrier or clerk then scans the form or packages.

Payment and Postage Verification Process

The merchant also provides its payment and package details (e.g. dimension and weight) about all its ePostage packages to the label provider. The label provider is responsible for transmitting the payment and an electronic manifest to the Postal Service.

As the package moves through the post office and processing plants, the Postal Service uses weight and dimension scanners to collect data or “attributes” about ePostage packages.⁵ The Postal Service may collect multiple weight and dimension scans as the package moves through mail processing equipment. The Postal Service uses only measurements that were captured on scales and scanners that are considered accurate or “trusted.” In some instances, it may

capture multiple measurements on a single package, but only one measurement (either a weight or a dimension scan) may be considered accurate.

Then the Postal Service uses its automated Electronic Verification System (eVS)⁶ to compare accurate package attributes that it collected on this equipment against the information provided in the manifest. If eVS detects that the merchant did not pay enough postage for a package (e.g., shortpaid⁷), the Postal Service automatically invoices the label provider for the additional postage. See Figure 2 above for a diagram of the flow of packages, manifests, and payments for the ePostage program.

In June 2022, the Postal Service deployed a new platform called “USPS Ship,” which will ultimately replace eVS to gather package attributes from scanning equipment for postage verification and payment.⁸ During FY 2023, the Postal Service programmed eVS to verify package attributes on about [REDACTED] of ePostage packages, allowing them to collect [REDACTED] in additional shortpaid postage.

ePostage Program Roles and Responsibilities

There are several teams that oversee specific aspects of the ePostage program as shown in Figure 3.

4 Postal Service (PS) Form 5630-Shipment Confirmation Acceptance Notice.

5 Package attributes include weight, dimensions, zone, mail-class, and any other characteristics used to calculate postage.

6 An automated payment method that allows ePostage label providers to document and pay postage to the Postal Service for an electronic manifest. Postage is electronically deducted from the label provider's postage payment account.

7 Some examples of shortpaid packages may be a package that is heavier, larger, uses incorrect packaging or a combination of factors when compared to the description that the merchant provided through its label provider for the manifest.

8 The Postal Service plans to replace eVS with USPS Ship, which will gather attributes, evaluate postage, and automatically bill or refund for inaccurate postage. On November 28, 2023, it announced plans to use USPS Ship for all ePostage volume by February 1, 2025. The Postal Service stated that USPS Ship will improve manifest processing and payment verification.

Figure 3. Teams and Responsibilities Related to ePostage

	Executive Vice President	Chief Finance Office	Chief Information Officer	Chief Retail & Delivery Officer	Chief Financial Officer	Chief Technology Officer
Teams		Finance and Strategy	Customer Access Technology	Retail & Post Office Operations	Revenue Assurance	Pricing and Acceptance Technology
Responsibility		Monitors contract compliance for discounted rates	Establishes relationships with businesses to offer USPS products. Technical Integration onboards ePostage customers and ensures they meet shipping requirements	Scans packages or the scan form at customer drop off	Identifies and collects lost revenue and deters future losses	Manages postage payment information technology for eVS and USPS Ship

Source: OIG analysis of USPS Blue website.

During onboarding of new ePostage customers, Technical Integration Specialists (TIS), which is part of Customer Access Technology, are responsible for evaluating whether label providers can comply with ePostage program requirements, which are summarized in the *ePostage Integration Guide*. This guide also provides merchants with mailing requirements and best practices such as using the scan form. Retail (Retail and Post Office Operations) accepts packages brought to the post office by scanning individual packages or scan forms associated with three or more packages, while carriers provide pickup and scanning at customer locations — their role in scanning these packages provides better tracking and package visibility.

Some ePostage label providers with sufficient package volume may obtain contracts for discounted rates.⁹ In these cases, Customer Access Technology (CAT) also works collaboratively with Finance and Strategy to monitor contractual compliance. Typically, when a label provider is not

compliant, staff also sends a non-compliance letter identifying the deficiency and timeline for resolution. The Postal Service conducts a subsequent review, and if the provider is still not compliant, CAT can request any lost revenue from the provider or cancel the contract. This oversight process applies to all customers with contracts, which can also include ePostage label providers.

Separately, the Postal Service's Revenue Assurance team identifies lost revenue using tools and field sampling¹⁰ of specific merchants and sends a notification of insufficient postage¹¹ to the merchants. The notification informs them that the Postal Service detected insufficient postage and requests that they correct their processes or suspend the merchant's ability to use ePostage.

Finally, Pricing and Acceptance Technology programs eVS and USPS Ship logic. This allows the Postal Service to compare USPS-collected package attributes to attributes provided on the merchant's manifest.

⁹ An incentive available through a negotiated service agreement, generally with a large-volume mailer, to provide customized pricing that is mutually beneficial between the Postal Service and a specific mailer.

¹⁰ Analysts evaluate data for packages manifested greater than 20 pounds and conduct physical observation and testing of a merchant's packages.

¹¹ Courtesy Notice Letter.

Finding Summary

We found that the Postal Service did not effectively manage the ePostage program. We identified several independent weaknesses that occurred related to collecting adequate revenue and monitoring program guidance. Overall, we found that these issues occurred because the Postal Service did not have an ePostage program manager assigned to oversee revenue strategy and ensure that monitoring and enforcement consistently occurred. By addressing these issues and assigning a program manager to provide proper oversight, the Postal Service should improve overall ePostage effectiveness and increase revenue.

Finding #1: Insufficient Revenue Protection and Program Management

An eVS programming deficiency resulted in a failure to collect any lost revenue associated with a high percentage of ePostage packages that had only one measurement. The Postal Service also did not monitor and enforce program requirements, such as collecting merchant information and ensuring the use of scan forms, which limited its ability to identify potential fraud, ensure transparency, and provide customer service with better package visibility.

Revenue Verification Deficiencies

The OIG found that Pricing and Acceptance Technology programmed eVS to only evaluate a package for correct postage if mail processing equipment captured *both* an accurate weight and an accurate dimension.¹² Therefore, from

July 2022 to January 2024, the Postal Service did not evaluate approximately [REDACTED] of all ePostage packages that had only one [REDACTED] for additional postage. Postal Service policy states that the eVS should compare scanned package attributes to manifested package attributes to identify insufficient postage and collect underpayments. Although evaluating both measurements may provide the most comprehensive package measurement (see Box 1 below), policy states that the purpose of eVS is to compare attributes and collect postage.¹³ Even one accurate measurement provides sufficient information to determine if the package was at least partially shortpaid and to collect additional postage.

Box 1: Postage Verification Limitations Illustration

Jill wants to ship a handbag in a package that is 23x9x8 inches and weighs 3.5 pounds, which should cost \$13.86. However, Jill mistakenly tells her label provider that the package is 18x9x8 and weighs only 2 pounds when she prints her label, and thus incorrectly pays only \$8.28. Based on the amount Jill paid and the real weight and dimension of her package, the full shortpaid amount and fees for this discrepancy should be:

- \$1.58 for additional weight
- \$4.00 for extra length
- \$1.50 fee for incorrectly reported dimension

Scenario 1: Equipment collects *both* an accurate weight and accurate dimension.

- USPS **could collect \$7.08 for shortpaid weight and dimension (including fees)**
- USPS **actually collects \$7.08 because of eVS programming for both weight and dimension**

Scenario 2: Equipment collects an accurate weight but did not collect an accurate dimension measurement.

- USPS **could collect \$1.58 for shortpaid weight**
- USPS **actually collects \$0 because of eVS programming deficiency** [REDACTED]

Scenario 3: Equipment collects an accurate dimension measurement but did not capture an accurate weight.

- USPS **could collect \$5.50 for shortpaid dimension and fees**
- USPS **actually collects \$0 because of eVS programming deficiency** [REDACTED]

Source: OIG analysis of Notice 123, using Ground Advantage Rate.

¹² Based on a random sample of one million ePostage packages shipped from July 2022 through January 2024. Starting in July 2022, the Postal Service collected weights and dimensions from [REDACTED]. The Postal Service may collect multiple weight and dimension scans. However, it only uses the measurements if it has determined that the [REDACTED] are considered accurate or "trusted."

¹³ Publication 205, *Electronic Verification System (eVS®) Business and Technical Guide*.

According to the Pricing and Acceptance Technology team, this issue occurred because of their business decision to not program eVS to verify more packages [REDACTED]. However, it did not conduct a cost benefit analysis for this decision. Further, management said evaluating more packages to incorporate those with only one measurement could destabilize the system and cause customer confusion during a transition to the new USPS Ship platform, and instead focused on investing in the new platform. We confirmed that this issue has been addressed in the new payment verification process developed for USPS Ship, which the Postal Service plans to implement in February 2025; however, it allowed this problem to continue without a short-term fix.

“As a result, we project that the Postal Service will increase revenue by [REDACTED] between May 2024 and August 2025, which will support its goal of increasing financial sustainability.”

We estimate the Postal Service did not collect an additional [REDACTED] in unrecoverable revenue¹⁴ between July 2022 to April 2024, which it would have collected if it had programmed eVS to evaluate ePostage packages [REDACTED] for additional postage due. Upon informing management of this issue during our audit, they took corrective action to add revenue controls in April 2024. Our analysis determined the Pricing and Acceptance Technology team improved eVS logic to evaluate a single accurate weight or dimension, and the Postal Service has increased its shortpaid

recovery for May 2024. As a result, we project that the Postal Service will increase revenue by [REDACTED]⁵ between May 2024 and August 2025, which will support its goal of increasing financial sustainability.

Program Management Deficiencies

Additionally, we found that the Postal Service did not sufficiently enforce ePostage program requirements for (1) label providers to transmit merchant identification information and (2) merchants to present a scannable form when tendering multiple packages. According to policy¹⁶ and ePostage guidance, ePostage providers must report contact details of the individual or entity to whom they provide the label, and merchants should provide the scan form when presenting three or more packages.

- *Failure to Enforce Merchant Information Requirements.* We determined that the Postal Service did not enforce merchant identification requirements, which resulted in one label provider erroneously assigning all merchants the same merchant ID, rather than a unique ID, affecting 44.7 million packages during FY 2023.¹⁷ Unique identifiers provide the most consistent customer identification, as a single merchant can use different contact information. Without this information, the Postal Service could not conduct shortpaid analysis, collect the related revenue shortfall, or ensure the integrity and safety of the mail.

As part of its contract review process, USPS sent this label provider a non-compliance letter in April 2023. It then provided a grace period until December 2023 for the provider to correct a software issue. In January 2024, we identified that it was not corrected and requested that CAT provide an update. [REDACTED]

¹⁴ Revenue that was lost and cannot be reclaimed.

¹⁵ The unrecoverable and increased revenue of [REDACTED], respectively, provide a total monetary impact of [REDACTED]. Increased revenue is based on the total projection without implementing changes.

¹⁶ ePostage Integration Guide.

¹⁷ We previously reported concerns about the Postal Service's inadequate enforcement of the requirement for middlemen to provide contact information to tie a package back to the entity that sent it during our October 2022 audit of Channel Partners (<https://www.uspsaig.gov/reports/audit-reports/key-issues-channel-partners>).

8

“We found that an ePostage provider failed to present sender contact information for approximately [REDACTED] packages during FY 2023.”

We identified another example where the Postal Service did not enforce collecting merchant contact information. We found that an ePostage provider failed to present sender contact information for approximately [REDACTED] packages during FY 2023. Without both a merchant ID and contact information, the Postal Service cannot directly contact merchants to address compliance and safety issues, such as hazardous materials or dangerous items. Despite the provider’s history of non-compliance and software issues, CAT granted a [REDACTED] and [REDACTED] advised the provider again of the requirement to provide sender contact information. In January 2024, we informed USPS that the provider was still non-compliant. Subsequently, USPS sent a contract non-compliance letter in April 2024 stating that without correction, it could [REDACTED]

[REDACTED] After fieldwork, the Postal Service stated that it is working with this provider to [REDACTED]

- *Failure to Ensure Merchant Use of Scan Form.* We also found that TIS does not monitor other ePostage Integration Guide requirements. Specifically, the scan form was not scanned in most cases when there were three or more

packages. This form ensures that a shipment receives a scan to clearly define where and when it enters the Postal Service’s custody, which provides transparency of the status of each package. We evaluated the top two label providers¹⁹ and found that one third of high-volume ePostage merchants never received a scan of this form during carrier pickup or customer drop off. It is difficult to determine whether the form was not scanned because a merchant did not provide the form or because a clerk or carrier did not scan a provided form.²⁰ However, during our site visits, we observed a container on the loading dock with at least twenty-five ePostage packages that a single merchant left without a scan form (see Figure 4). We confirmed the packages were not scanned and accounted for correctly. The local supervisor acknowledged that without a scan form, none of the packages will receive an induction scan, which decreases tracking visibility for the customer.

Figure 4. Container of Unscanned Packages



Source: Photo taken by USPS OIG on October 17, 2023.

¹⁸ The Postal Service indicated that it provides a reasonable amount of time to correct issues.

¹⁹ The top two label providers shipped approximately [REDACTED] of ePostage packages in FY 2023. We completed this analysis using the top two ePostage label providers because we found data transmitted by those label providers to be sufficiently reliable for identifying unique ePostage merchants.

²⁰ We identified [REDACTED] merchants, which shipped at least [REDACTED] (which can contain multiple packages) during FY 2023, where at least two-thirds of shipments contained more than 50 pieces or 50 pounds.

TIS management²¹ indicated that it should be responsible for monitoring and enforcing these aspects of ePostage guidance. However, during the audit, TIS staff were not proactively monitoring compliance with either merchant contact information or the use of scan forms by the merchant or clerks and carriers. The staff explained that they enforced the policy only when issues were brought to their attention. Although CAT and other groups within the Postal Service conduct sampling to monitor and enforce compliance for mailers with discounted pricing contracts, not all ePostage providers may be consistently sampled or have contracts subject to this oversight process. For example, not all ePostage providers may have discounted pricing contracts, or collectively, their business represents a smaller portion of the Postal Service’s overall revenue and is subject to less oversight. After our fieldwork, the Postal Service stated that it plans to evaluate creating a new process to replace scan forms that would also indicate where and when it takes custody of ePostage packages.

Need for an ePostage Program Manager

Overall, failure to effectively manage the ePostage program by verifying postage and enforcing requirements occurred because the ePostage program did not have a program manager assigned to conduct oversight. Multiple business areas manage different aspects over payments and contracts. These stakeholders made business decisions about their part of the process without a single person or party to proactively monitor revenue collection and compliance for a program that collected [REDACTED] billion in FY 2023.

Failure to provide program oversight hampered revenue protection, [REDACTED] and mail safety, and may have limited package visibility to their customers. Ultimately, this resulted in a significant loss of revenue from the ePostage program for the Postal Service. Further, using the scan form to clearly identify the status of a package enhances

“Failure to provide program oversight hampered revenue protection, [REDACTED] and mail safety, and may have limited package visibility to their customers.”

visibility, which also provides better end-to-end customer service for the merchants and their customers. After our audit fieldwork was complete, Postal Service management indicated that ePostage had a program manager responsible for technology. However, that individual did not conduct effective, overarching oversight for the ePostage program. Our recommendation addresses this deficiency. Additionally, the Postal Service provided documentation that it will cancel the ePostage program, effective February 2025.

Recommendation #1

We recommend the **Executive Director, Product Solutions**, in coordination with the **Vice President, Technology Applications**, apply captured but previously unused weights and dimensions on shortpaid merchants’ packages to identify and collect past shortpaid revenue.

Recommendation #2

We recommend the **Vice President, Sales Intelligence & Support** and **Executive Director, Product Solutions**, in coordination with the **Vice President, Technology Applications** and **Executive Director, Strategic Sales & Account Initiatives**, establish procedures to conduct periodic reviews for compliance with merchant information requirements and address noncompliance within a reasonable timeframe.

²¹ CAT and TIS both report to the same management.

Recommendation #3

We recommend the **Vice President, Technology Applications**, in coordination with the **Vice President, Retail & Post Office Operations** and **Executive Director, Product Solutions**, establish procedures to ensure it provides a clear indication of when and where the Postal Service takes custody of all ePostage packages, monitor compliance with its procedures, and notify merchants of noncompliance.

Recommendation #4

We recommend the **Vice President, Retail & Post Office Operations**, conduct a Stand-Up Talk to promote use of the ePostage scanning procedures, including scan forms or alternative.

Recommendation #5

We recommend the **Vice President, Technology Applications**, assign responsibility to its ePostage program manager to evaluate decisions impacting revenue and implement a process to monitor and enforce ePostage Integration Guide requirements.

Postal Service Response

Management partially agreed with the finding and agreed with recommendations 1 through 5. Regarding finding 1, management stated it was not a programming deficiency in eVS. Rather the data flow from USPS Ship to eVS was only planned to support data feeds related to dimensional pricing and non-standard fees. However, the Postal Service agreed that it did not monitor compliance merchant contact information and scan forms. Management also disagreed with our monetary impact, which it stated did not factor offsets from overpayments and because sampling may not represent the entire population.

Regarding recommendation 1, management stated it agreed to use weight and dimensions from mail processing equipment to identify shortpaid revenue going forward, which it implemented in May 2024. However, management disagreed with adjusting historical transactions to collect shortpaid revenue because it would have negative customer and revenue impacts and burden customers to collect from end merchants. Regarding recommendation 2, management stated they will develop a plan to monitor compliance with providing the required end merchant information and provided a target implementation date of February 28, 2025. Regarding recommendation 3, management stated they will review, update, or establish procedures for retail acceptance of ePostage packages, including to monitor merchant compliance. The target implementation date is March 31, 2025. Regarding recommendation 4, management stated they will disseminate the message on the use of scan forms or an alternative with an implementation date of September 30, 2024. Regarding recommendation 5, management stated the ePostage Program Manager will evaluate decisions impacting revenue and monitor and enforce program requirements with an implementation date of March 30, 2025.

OIG Evaluation

Regarding finding 1, although the Postal Service stated that data flow from USPS Ship to eVS was only planned to support dimensional pricing, we identified that it did not program its data flow properly or conduct a cost benefit analysis. This resulted in the Postal Service not assessing all ePostage packages for additional postage from July 2022 to January 2024. Regarding monetary impact, our statistically valid analysis indicated that when the Postal Service corrected eVS in May 2024, as a result of our audit, the additional revenue it collected closely aligned with our monthly estimates.

Management's comments were responsive to recommendations 2, 3, 4, and 5 and corrective actions should resolve the issues identified in the report. Regarding management's response to recommendation 1, although the Postal Service's actions have corrected the issue going forward, its proposed actions will not address past shortpaid revenue in support of its overall financial sustainability. We acknowledge management's business decision to not pursue additional shortpaid postage from past transactions, which could put an undue burden on customers. Therefore, OIG considers the recommendation closed based on actions implemented by the Postal Service to protect future transactions from shortpaid revenue.

Finding #2: Shortpaid Detection and Enforcement Deficiencies

We found that the Postal Service’s Revenue Assurance office, which is responsible for identifying lost revenue and deterring future losses, did not sufficiently monitor for shortpaid postage to identify frequent offenders or consistently administer and enforce corrective actions. During FY 2023, Revenue Assurance opened cases and sent individualized notifications to [REDACTED] merchants that used the [REDACTED] ePostage label providers. However, we identified [REDACTED] merchants associated with these label providers, whose individual shipping volume was comprised of [REDACTED] or more shortpaid packages (approximately [REDACTED]).²² Only [REDACTED] of these frequent shortpaying merchants were the focus of Revenue Assurance’s FY 2023 cases — its other [REDACTED] cases related to merchants with a smaller rate of detected shortpaid activity.

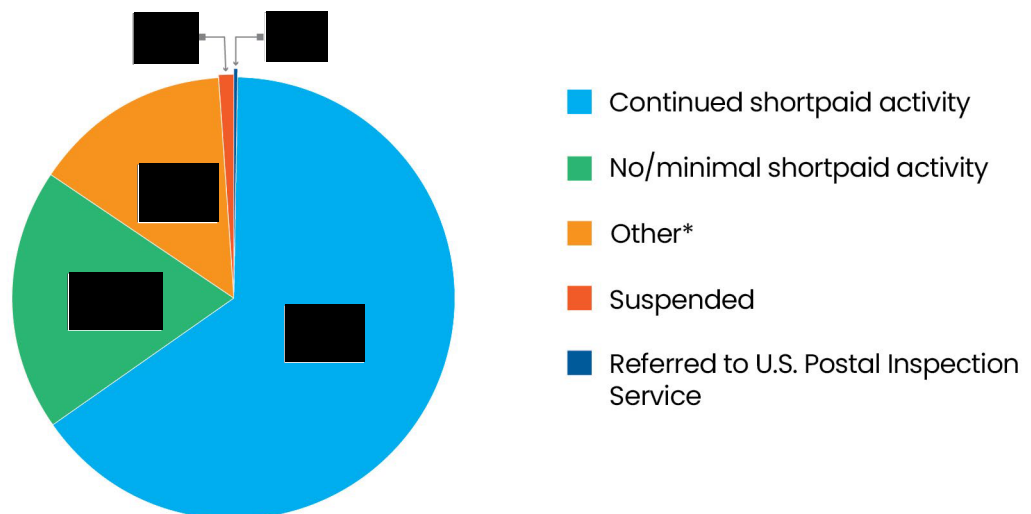
Moreover, even when the Postal Service opened cases to encourage compliance, its efforts were not

“Moreover, even when the Postal Service opened cases to encourage compliance, its efforts were not effective in addressing merchants that consistently tendered shortpaid packages.”

effective in addressing merchants that consistently tendered shortpaid packages. Specifically, in FY 2023, Revenue Assurance formally notified all [REDACTED] merchants that it detected shortpaid packages, yet [REDACTED] merchants (65 percent) continued shortpaying without penalty (see Figure 5).²³

Figure 5. Outcome of FY 2023 Revenue Assurance Actions for the Top Two Label providers

Source: OIG analysis of data obtained from Revenue Assurance.



*Other includes cases where the merchant became inactive (little or no shipping activity) after Revenue Assurance’s last action, or if auditors were unable to determine the shortpaid status due to the nature of the case and associated data.

²² For this analysis, we evaluated the [REDACTED] ePostage providers associated with [REDACTED] of ePostage volume in FY 2023 because these providers reliably identified individual merchants, whereas other providers did not. Please see finding one for more information on issues identifying ePostage merchants. The [REDACTED] merchants shipped approximately [REDACTED] packages collectively during FY 2023.

²³ We considered merchants to have continued shortpaying if 50 percent or more of sampled packages were shortpaid starting two weeks after the last action taken by Revenue Assurance. We also considered the merchant to have continued shortpaying if their shortpaid percentage was equal to or greater than the percentage of shortpaid at the time that Revenue Assurance last took action, at which time analysts identified that percentage of shortpaid was significant enough to send a notification.

In one case, Revenue Assurance contacted a label provider about a merchant with a high percentage of shortpaid packages. The provider stated they would suspend the merchant's ability to use ePostage in September 2023 but did not do so. We found that more than 85 percent of assessed packages sent by the merchant from September 2023 through March 2024 were still shortpaid. Additionally, Revenue Assurance's actions were often inconsistent. We identified instances where merchants received multiple notifications but other merchants with similar volume and rates of shortpaid packages only received one notification.

These issues occurred because Revenue Assurance's manual process to identify and pursue noncompliance was cost prohibitive, and leadership did not establish guidance to promote consistent and effective practices. As federal law²⁴ requires the Postal Service to collect debts due to it, management should document control responsibilities in policies.

First, Revenue Assurance analysts used an automated data tool to identify flat-rate label misuse but lacked tools to identify other types of shortpaid packages. Analysts developed the data tool for this fixed-rate product because they could reliably identify customer intent to alter or misuse a label. For example, misuse of a flat-rate label could include a case where a merchant prints a label intended for a cheaper fixed-rate envelope²⁵ but places it on a much larger and heavier box. Otherwise, analysts had to rely on outside referrals to identify potential cases or issues observed when analysts were in the field judgmentally evaluating packages.²⁶

Management explained that it was cost prohibitive to pursue cases, as analysts manually researched and then generated notifications to the merchant and communicated with the label provider. Revenue Assurance did not have an automated system to generate and mail alerts, such as those received from a credit card company when an account is past due.

Second, even in instances where Revenue Assurance did identify frequent shortpaid merchants, its efforts were inconsistent and ineffective because managers and analysts did not have sufficient guidance to determine when they should:

- open a case and send a notification,
- inform the label provider, and
- request account suspensions.

Additionally, managers did not have any specific time frame for when analysts should re-evaluate an account for compliance after sending the first notification or any subsequent action.

With limited resources and a large influx of shortpaid cases due to poor revenue controls as identified in Finding 1, guidance and automated improvements in Revenue Assurance's monitoring could help prevent continued misuse of ePostage. Without such monitoring, the Postal Service significantly decreased revenue collection for the ePostage program, while also limiting its ability to identify and refer potential instances of fraud. Following our audit, the Postal Service stated that when ePostage merchants transition to the USPS Ship platform, shortpaid detection and recovery will become automated.

Recommendation #6

We recommend the **Vice President, Technology Applications**, in coordination with **Vice President, Controller**, establish automated processes to identify merchants that shortpay, and create and issue automated noncompliance notifications to merchants and label providers, when applicable.

²⁴ Title 39 U.S. Code § 2601, *Collection and adjustment of debts*.

²⁵ A flat rate envelope is a pre-determined price for a single piece, regardless of destination or the actual weight of the contents, as long as the contents fit completely within the envelope.

²⁶ As of January 2024, there were nine Revenue Assurance analysts.

Recommendation #7

We recommend the **Vice President, Controller**, establish guidelines outlining quantifiable conditions for issuing noncompliance notifications to merchants and related timelines, notifying the label provider of mailer noncompliance, and suspending mailers' accounts.

Postal Service Response

Management partially agreed with the finding and agreed with recommendations 6 and 7. Regarding finding 2, management disagreed that Revenue Assurance was responsible for identifying lost revenue and deterring future losses, which has been mostly automated. Rather than monitoring shortpaid postage, management stated it acts upon tips from the field, the U.S. Postal Inspection Service, and internal sources as warranted and follows the process outlined in policy when assessing and collecting postage deficiencies. Management agreed that Revenue Assurance did not consistently administer and follow-up on enforcement for terms of Negotiated Service Agreements, and more broadly, is reviewing the dynamic landscape of shortpaid and fraudulent packages and developing a plan to minimize fraud through preventative measures.

Regarding recommendation 6, management stated they will issue revenue deficiency letters and leverage automated shortpaid reporting where applicable in existing systems, with an implementation date of March 31, 2025. Regarding recommendation 7, management stated they will enhance the process of managing leads, revise its reporting system, and document considerations for escalation of suspending a merchant's account, with a target implementation date of March 31, 2025.

OIG Evaluation

Regarding finding 2, although the Postal Service stated that Revenue Assurance was not responsible for identifying lost revenue and deterring future losses, it demonstrated some systematic identification and deterrence efforts during the audit, although with limited effect. Additional automated identification efforts could have potentially yielded uncollected revenue from the universe of [REDACTED] merchants with a history of shortpaying. Regarding recommendations 6 and 7, management's comments were responsive and corrective actions should resolve the issues identified in the report.

Looking Forward

The Postal Service has already begun strengthening some revenue controls through the initial implementation of USPS Ship and will resolve some issues identified in this report when customers migrate to the new system next year. While the Postal Service improves overall ePostage oversight, we have additional concerns regarding contract compliance, which will not be addressed by USPS Ship. We previously reported concerns about the Postal Service's inadequate enforcement of the requirement for middlemen to provide contact information to tie a package back to the entity that sent it. Following our audit of Channel Partners in 2022, the Postal Service discontinued the program's contracts for resellers to address these concerns. Although it plans to also discontinue the ePostage program, we urge the Postal Service to evaluate other programs with middlemen and take steps to improve enforcement of this requirement.

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Appendix A: Additional Information

Scope and Methodology

Our audit scope was a nationwide review that covered program management and postage verification of ePostage payments. To accomplish our objective, we:

- Reviewed prior audit work from the U.S. Postal Service Office of Inspector General related to the subject matter.
- Reviewed Code of Federal Regulations, Postal Service policies, and directives that govern ePostage.
- Interviewed post office personnel to acquire knowledge over ePostage processes and controls during mail induction.
- Interviewed Postal Service management to evaluate the effectiveness of ePostage oversight.
- Conducted a site visit at a processing and distribution center to observe packages processed using automation equipment, visited several post offices to gain an understanding of how packages are inducted, and reviewed controls related to package scanning.
- Obtained ePostage payment validation requirements to evaluate payment adjustments, identify shortpaid trends, and calculate revenue loss.
- Analyzed 592 million ePostage packages shipped from July 2022 to January 2024 to assess postage and program compliance.
- Reviewed Revenue Assurance cases for ePostage merchants to determine whether revenue protection processes were effective.
- Consulted with internal experts to review and evaluate statistical methodology.

We conducted this performance audit from October 2023 through August 2024 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 July 11, 2024, and included their comments where appropriate.

In planning and conducting the audit, we obtained an understanding of the ePostage program internal control structure to help determine the nature, timing, and extent of our audit procedures. We reviewed the management controls for overseeing the program and mitigating associated risks. Additionally, we assessed the internal control components and underlying principles, and we determined that the following five components were significant to our audit objective: control environment, risk assessment, control activities, information and communication, and monitoring.

We developed audit work to ensure that we assessed these controls. Based on the work performed, we identified internal control deficiencies related to control environment and control activities within the context of our objective. Our recommendations, if implemented, should correct the weaknesses we identified.

We assessed the reliability of PostalOne, USPS Ship, and Product Tracking and Reporting data by performing completeness, reasonableness, accuracy, and validity tests on the data. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
Key Issues with Channel Partners	To communicate issues identified during our audit that require accelerated attention to U.S. Postal Service Officials	22-069-1-R23	10/13/2023	

Appendix B: Management's Comments



July 31, 2024

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: ePostage Oversight (23-149)

Thank you for providing the Postal Service an opportunity to review and comment on the findings contained in the draft audit report titled: *ePostage Oversight*.

Finding 1: An eVS programming deficiency resulted in a failure to collect any lost revenue associated with a high percentage of ePostage packages that had only one measurement. The Postal Service also did not monitor and enforce program requirements, such as collecting merchant information and ensuring the use of scan forms, which limited its ability to identify potential fraud, ensure transparency, and provide customer service with better package visibility.

Management Response/Action Plan: Management disagrees with the assertion that there was a programming deficiency in eVS for collecting only on packages with both trusted weight and dimensions from mail processing equipment provided to EVS from USPS Ship. The data flow from USPS Ship to eVS was only planned to support dimensional pricing in support of the non-standard fees. In May, we added the ability to also leverage weights or dimensions from our mail processing equipment [REDACTED]

Pursuing additional postage based on data that was not made available to customers at the time the packages were shipped puts an undue burden on customers for collecting from end merchants. Further, customers are only afforded 60 days to dispute charges.

Management agrees that we did not monitor the compliance with merchant information and scan forms.

Finding 2: Shortpaid Detection and Enforcement Deficiencies: "We found that the Postal Service's Revenue Assurance office, which is responsible for identifying lost revenue and deterring future losses, did not sufficiently monitor for short paid postage to identify frequent offenders or consistently administer and enforce corrective actions..."

Management Response/Action Plan: Management disagrees with the assertion that Revenue Assurance is responsible for identifying lost revenue and deterring future losses. The identification and collection of shortpaid has largely been addressed through automated means.

Revenue Assurance took action on suspected revenue deficiencies in accordance with the Management Instruction *Assessing and Collecting Deficiencies in Postage or Fees* ("Management Instruction"). Revenue Assurance is not responsible for monitoring for short-paid postage to identify frequent offenders, except within the context of the lookback period described in the Management Instruction.

Revenue Assurance acts upon tips from the field, the United States Postal Inspection Service (USPIS), or internally identified underpayments and investigates as warranted. Revenue Assurance follows the process outlined in the Management Instruction; when fraudulent or criminal activity is suspected, the case is referred to the USPIS.

Management agrees that Revenue Assurance did not consistently administer and follow-up on enforcement actions as allowed under the terms of Negotiated Service Agreements.

More broadly, management is reviewing the overall shortpaid and fraudulent package landscape which has been dynamic in recent years. Management is developing a plan to minimize fraud through the implementation of preventive measures to include intercepting packages that lack a payment record.

Monetary Impact:

Management disagrees with the estimated monetary impact of [REDACTED] because it does not take into account offsets generated when customers overpay and because of sampling risk where sample results may not be representative of the entire population.

Following are our comments on each of the recommendations:

Recommendation 1: We recommend the Executive Director, Product Solutions, in coordination with the Vice President, Technology Applications, apply captured but previously unused weights and dimensions on shortpaid merchants' packages to identify and collect past shortpaid revenue.

Management Response/Action Plan: Management agrees to use weights and dimensions from mail processing equipment on shortpaid merchant packages to identify and collect shortpaid revenue on a going-forward basis. This enhancement was implemented in May 2024. However, adjusting historical transactions from customers to calculate and attempt to collect shortpaid revenue will lead to unintended negative customer and revenue impacts. A change to the USPS verification processes to use expanded data should not

be retroactively applied. Customers are afforded 60 days to dispute charges. Pursuing additional postage based on data that was not provided to customers at the time the packages were sent puts an undue burden on customers for collecting from end merchants.

Target Implementation Date: 09/30/2024

Responsible Official: Executive Director, Product Solutions, and Vice President, Technology Applications

Recommendation 2: We recommend the Vice President, Sales Intelligence & Support and Executive Director, Product Solutions; in coordination with the Vice President, Technology Applications and Executive Director, Strategic Sales & Account Initiatives, establish procedures to conduct periodic reviews for compliance with merchant information requirements and address noncompliance within a reasonable timeframe.

Management Response/Action Plan: Management agrees with this recommendation and will develop a plan to monitor compliance with providing the required information. Management will clarify that all marketplaces and platforms under the Connect eCommerce program must provide end merchant visibility through an approved process. USPS will continue monitoring end merchant visibility and work with customers to improve.

Target Implementation Date: 02/28/2025

Responsible Official: Vice President, Sales Intelligence & Support and Executive Director, Product Solutions; Vice President, Technology Applications and Executive Director, Strategic Sales & Account Initiatives

Recommendation 3: We recommend the Vice President, Technology Applications, in coordination with the Vice President, Retail & Post Office Operations and Executive Director, Product Solutions, establish procedures to ensure it provides a clear indication of when and where the Postal Service takes custody of all ePostage packages, monitor compliance with its procedures, and notify merchants of noncompliance.

Management Response/Action Plan: Management agrees with this recommendation and will review and update or establish, as appropriate, standard operating procedures for retail acceptance of ePostage packages, including whether a scan form or other customer requirement for multi-package acceptance is needed. This review will include procedures to monitor compliance and notify merchants of noncompliance.

Target Implementation Date: 03/31/2025

Responsible Official: Vice President, Technology Applications, Vice President, Retail & Post Office Operations and Executive Director, Product Solutions

Recommendation 4: We recommend the Vice President, Retail & Post Office Operations, conduct a Stand-Up Talk to promote use of the ePostage scanning procedures, including scan forms or alternative.

Management Response/Action Plan: Management agrees with this recommendation and will disseminate a Stand-up Talk on the use of scanning procedures including the use of scan forms or alternative.

Target Implementation Date: 9/30/24

Responsible Official: Manager, Post Office Operations and Delivery Integration

Recommendation 5: We recommend the Vice President, Technology Applications, assign responsibility to its ePostage program manager to evaluate decisions impacting revenue and implement a process to monitor and enforce ePostage Integration Guide requirements.

Management Response/Action Plan: Management agrees with this recommendation. The ePostage Program Manager will evaluate decisions impacting revenue and implement a process to monitor and enforce ePostage Integration Guide requirements.

Target Implementation Date: 03/30/2025

Responsible Official: Vice President, Technology Applications

Recommendation 6: We recommend the Vice President, Technology Applications, in coordination with Vice President, Controller, establish automated processes to identify merchants that short pay, and create and issue automated noncompliance notifications to merchants and label providers, when applicable.

Management Response/Action Plan: Management agrees with this recommendation. Revenue Assurance will collaborate with the VP Technology Applications and issue revenue deficiency letters, leveraging automated shortpaid reporting in existing systems such as [REDACTED] in accordance with the Management Instruction where applicable.

Target Implementation Date: 03/31/2025

Responsible Official: Executive Manager, Revenue Assurance

Recommendation 7: We recommend the Vice President, Controller, establish guidelines outlining quantifiable conditions for issuing noncompliance notifications to merchants and related timelines, notifying the label provider of mailer noncompliance, and suspending mailers' accounts.

Management Response/Action Plan: Management agrees with this recommendation. Revenue Assurance will take the following actions to enhance the process of managing leads received from the field, USPIS, or internally identified underpayments by Revenue Assurance.

1. Improve the Lead tracking, notification, and reporting capabilities of Revenue Assurance by developing a consolidated [REDACTED]
2. Revise and simplify the [REDACTED] system and integrate with the Lead tracking platform.
3. Document considerations for escalation of suspending a merchant's account.

Target Implementation Date: 03/31/2025

Responsible Official: Executive Manager, Revenue Assurance

E-SIGNED by ELVIN MERCADO
on 2024-07-31 10:46:08 EDT

Elvin Mercado
Vice President, Retail & Post Office Operations

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Executive Director, Strategic Sales & Account Initiatives

cc: Corporate Audit Response Management

OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE



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