

March 31, 2003

ANITA J. BIZZOTTO  
SENIOR VICE PRESIDENT, CHIEF MARKETING OFFICER

STEVEN HERNANDEZ  
ACTING VICE PRESIDENT, SALES

SUBJECT: Audit Report – Postal Service’s Involvement in Sponsorships  
(Report Number OE-AR-03-003)

This report presents the results of our self-initiated audit of the Postal Service’s involvement in sponsorships (Project Number 01NG003MK000). The audit objectives were to determine whether sponsorships contributed to the agency’s financial performance, incurred appropriate expenditures, and met stated goals and objectives. In addition, we evaluated whether the Postal Service should be involved in sponsorships.

While we found no significant exceptions with sponsorship expenditures, the audit disclosed that the Postal Service has not effectively managed its sponsorships. Specifically, the Postal Service was unable to track or verify revenue associated with sponsorships, lacked goals and objectives for some sponsorships, and did not manage tickets and invitations appropriately. As a result, the Postal Service could not determine return on investments, measure the effectiveness of its sponsorships, and take advantage of networking opportunities to generate revenue.

In addition, we found no laws or policies precluding the Postal Service from being involved in sponsorships. However, in light of recent media coverage and public policy debate on sponsorships, it is even more paramount for the Postal Service to justify its actions. The Postal Service needs to consider sponsorships in light of its monopoly status, financial condition, investment returns, and core mission. The report provided seven recommendations addressing these issues.

Management agreed with 6 of 7 recommendations. Although they disagreed with recommendation 1, management’s planned actions satisfy its intent and should correct the issue. Management’s comments were not responsive to recommendation 4. However, following the issuance of their comments, management provided additional documentation clarifying plans to issue a directive ensuring each sponsorship has specific and measurable goals and objectives. Therefore, we consider this

recommendation resolved. Management's comments and our evaluation of these comments are included in this report.

The OIG considers recommendations 1, 2, and 7 significant and, therefore, requires OIG concurrence before closure, consequently, the OIG requests written confirmation when corrective action(s) are completed. These recommendation(s) should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendation(s) can be closed.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Robert J. Batta, director, Accepting and Processing, at (703) 248-2100, or me at (703) 248-2300.

Ronald D. Merryman  
Acting Assistant Inspector General  
for eBusiness

Attachment

cc: Richard J. Strasser Jr.  
Mary Anne Gibbons  
Keith Strange  
Azeezaly S. Jaffer  
Susan M. Duchek

## TABLE OF CONTENTS

<b>Executive Summary</b>	i
<b>Part I</b>	
<b>Introduction</b>	1
Background	1
Objectives, Scope, and Methodology	2
Prior Audit Coverage	3
<b>Part II</b>	
<b>Audit Results</b>	4
Sponsorships Ineffectively Managed	4
Recommendation	5
Management's Comments	5
Evaluation of Management's Comments	5
Appropriateness of Expenditures	5
Recommendation	6
Management's Comments	6
Evaluation of Management's Comments	6
Unable to Verify Sponsorships Financial Performance	6
Recommendation	7
Management's Comments	8
Evaluation of Management's Comments	8
Lack of Goals and Objectives	8
Recommendations	9
Management's Comments	9
Evaluation of Management's Comments	9
Ineffective Management of Sponsorship Event	
Tickets and Invitations	10
Recommendation	13
Management's Comments	13
Evaluation of Management's Comments	13

Sponsorships Public Policy Issues	14
Recommendation	15
Management's Comments	15
Evaluation of Management's Comments	15
Appendix A. Management's Comments	16
Appendix B. OIG's Response to Management's Comments Claiming Report Inaccuracies	22

## EXECUTIVE SUMMARY

---

### Introduction

This report presents the results of our self-initiated audit of the Postal Service's involvement in sponsorships. Our review was limited to one national and ten local sponsorships, all of which were active between 1996 and 2002. We did not review any charitable sponsorships because of their small dollar amounts. Our audit objectives were to determine whether sponsorships contributed to the agency's financial performance, incurred appropriate expenditures, and met stated goals and objectives. In addition, we examined whether the Postal Service should be involved in sponsorships.

---

### Results in Brief

While we found no significant exceptions with sponsorship expenditures, the audit disclosed that the Postal Service has not effectively managed its sponsorships. Specifically, the Postal Service:

- Was unable to verify revenue claimed as a result of sponsorships and, therefore, could not determine return on investment.
- Lacked goals and objectives for 10 of the 11 sponsorships, resulting in the inability to measure effectiveness.
- Did not track 776 (31 percent) and properly use 1,682 (96 percent) of its event tickets and invitations in 2001, resulting in a loss of networking opportunities and another avenue to generate revenue.

As a result, it was not possible to measure the effectiveness of the program in its current state, and it is questionable whether the Postal Service could support a business case to retain the sponsorships.

Several factors that have contributed to these conditions included: (1) the Postal Service did not always follow procedures for initiating sponsorships, (2) no single executive or office has complete knowledge and accountability over sponsorships, and (3) adequate mechanisms were not established for tracking revenues and costs related to sponsorships.

In addition, we found no laws or policies precluding the Postal Service from being involved in sponsorships. However, in light of recent media coverage and public policy debate on sponsorships, it is even more paramount for the Postal Service to justify its actions. The Postal Service needs to consider its involvement in sponsorships given its monopoly status, financial condition, investment returns, and core mission.

---

**Summary of Recommendations**

We recommended Postal Service management (1) appoint one executive responsible for managing all sponsorships and establish effective controls and measures over the initiatives, and (2) develop a business case for sponsorships that examines public policy issues and other business concerns.

---

**Summary of Management's Comments**

Management agreed with 6 of the 7 recommendations. They disagreed with recommendation 1 to formally appoint an executive with responsibility for overall Postal Service sponsorships and management of the program.

Regarding recommendation 4, management indicated that all sponsorships are based on five goals and objectives, outlined in their policy. Management's comments, in their entirety, are included in Appendix A of this report.

---

**Overall Evaluation of Management's Comments**

Management agreed with recommendations 2 through 7. Regarding recommendation 1, the intent of our recommendation was to establish a single focal point responsible for the management of sponsorships. All future national sponsorships will be managed out of the Marketing organization, and local sponsorships will be approved by Marketing. Thus, we consider planned actions responsive to the intent of recommendation 1.

While management agreed with recommendation 4, their comments were not responsive. However, following the issuance of their comments, management provided additional documentation clarifying plans to issue a directive ensuring each sponsorship has specific and measurable goals and objectives. Therefore, we consider this recommendation resolved. Management's actions taken or planned should correct the issues identified in the report.

In Appendix B, we addressed management's concerns regarding claimed inaccuracies in the report.

## INTRODUCTION

### Background

Since 1996, the Postal Service has had one national and over 200 local sponsorships.<sup>1</sup> The intent of the advertising and marketing sponsorships was primarily to promote sales and enhance brand position and exposure. During this audit, we reviewed 11 sponsorships with total costs of over [REDACTED] (see Chart A below).

**Chart A**

Sponsorships	Period	Contract Costs	Advertising Costs	Other Related Expenses	Total Costs
Pro-Cycling	1996-2002	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Heisman	2000-2001	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Chicago Bears	1998-2002	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
New York Yankees	1999-2002	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
New York Giants	1998-2002	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Notre Dame	2001-2002	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
DM Days <sup>2</sup>	2001	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
First Union (Philadelphia)	2001	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Tampa Bay Devil Rays	1998-2000	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Masters Tournament	1999	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Ryder Cup	2001	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

In 1996, the Postal Service initiated its national sponsorship with a Pro-Cycling team sponsorship as a business opportunity to generate new revenue and build brand image. The team won national and international races, including four consecutive Tour de France races. This sponsorship totals over [REDACTED] and has become the Postal Service's most expensive sponsorship endeavor.

As of January 1999, the senior vice-president, chief marketing officer, took responsibility for approving all field and headquarters sponsorship/event-marketing requests. Prior to this, area offices and headquarters could authorize sponsorships within their own budget constraints. From 1996 to 1997, the Advertising department managed the Pro-Cycling team sponsorship until it was turned over to the Sales organization in 1998. In addition, the Expedited Package Service group initiated and managed eight

<sup>1</sup> National sponsorships are defined as those that are funded and managed at the headquarters level.

Local sponsorships are defined as those that are funded from headquarters and managed at the area level.

<sup>2</sup> The Postal Service provided documentation on sponsorships at the onset of the review, which included DM Days. Management's comments indicated that DM Days is not the same type of sponsorship as the ones reviewed.



sponsorships through 2001. However, management of all sponsorships (except the Pro-Cycling team under Sales) was transferred to Advertising as a result of the Postal Service's 2001 reorganization. Since 1998, the Postal Service has eliminated over 200 sponsorships, leaving only 5 as of October 2002.<sup>3</sup>

---

**Objectives, Scope,  
and Methodology**

The objectives of this audit were to determine whether sponsorships: (1) contributed to the agency's financial performance, (2) incurred appropriate expenditures, and (3) met stated goals and objectives. We also examined whether the Postal Service should be involved in sponsorships.

To accomplish these objectives, we interviewed Postal Service officials at headquarters and field offices, marketing representatives from private companies and contractors, and officials from government, quasi-government, and nonprofit organizations. Additionally, we reviewed applicable Postal Service policies, guidance, and best practices for managing and measuring sponsorships.

To evaluate whether sponsorships contributed to the financial performance, we reviewed contract and related costs, and documentation available on benefits and/or return-on-investments. To review whether the sponsorships met stated goals and objectives, we reviewed sponsorships' objectives, rationale, and pre- and post-event evaluations.

To assess whether expenditures were appropriate, we relied on data from the Accounts Payable and Reporting System and examined [REDACTED] in expenditures related to sponsorships. We assessed the reliability of this data including relevant general and application controls and found them to be adequate. We also reviewed whether certain procedures were followed regarding the initiation and continuation of sponsorships as well as ticket usage.

To determine whether the Postal Service should be involved in sponsorships, we reviewed public policy issues; assessed the involvement of government and quasi-government agencies and private companies in sponsorships; obtained documents supporting sponsorships from Postal Service internal publications, and testimonies made by employees and critics.

---

<sup>3</sup> These were the: Pro-Cycling team; Ryder Cup Golf Tournament; New York Yankees (Major League Baseball team); New York Giants (National Football League team), and Notre Dame (College Football team).

Our review was limited to one national and ten local sponsorships, all of which were active between 1996 and 2002. We did not review any charitable sponsorships because of their small dollar amounts. This audit was conducted from August 2001 through March 2003 in accordance with generally accepted government auditing standards, and included such tests of internal controls as were considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

---

**Prior Audit Coverage**

In July 1993, the General Accounting Office (GAO) issued a report, 1992 Olympic Sponsorship-Profit or Loss is Unknown (Report Number GAO/GGD-93-89). The report indicated the GAO could not verify the accuracy of certain key revenues and costs attributed to the sponsorship because it was so intertwined and overlapped with other Postal Service operations.

## AUDIT RESULTS

---

**Sponsorships  
Ineffectively  
Managed**

The Postal Service has not effectively managed sponsorships. While we found no significant exceptions with sponsorship expenditures, we found the Postal Service:

- Was unable to verify sponsorships' financial performance.
- Lacked goals and objectives for some sponsorships.
- Ineffectively managed sponsorship event tickets and invitations.

There are several factors that contributed to these conditions. For example, no single executive or office has complete knowledge and accountability over all Postal Service sponsorships. In addition, the Postal Service does not have adequate controls and measures over the sponsorships. Therefore, it was not possible to measure the effectiveness of the program in its current state, and in our view, it is questionable whether the Postal Service could support a business case to retain the sponsorships.

In August 2002, management acknowledged problems in the past regarding sponsorships. However, since 1998 the Postal Service eliminated over 200 sponsorships, leaving only 5 as of October 2002. Management also stated the Postal Service was looking to the future and if sponsorship opportunities are deemed beneficial to the agency, it will continue to participate. For example, management emphasized that the brand recognition and boost in employee morale from the Pro-Cycling team sponsorship far outweighs the cost to the Postal Service and stated there are no plans or developments to change the current process of implementing sponsorships. Additionally, management stated all sponsorships would be coordinated through the manager of Advertising, a decision that was communicated verbally to Marketing managers in 2001, but not in writing.

---

<b>Recommendation</b>	We recommend the senior vice president, chief marketing officer:  1. Formally appoint one executive with responsibility over all Postal Service sponsorships and management of the program.
<b>Management's Comments</b>	Management disagreed with our recommendation. They indicated that the Pro-Cycling team national sponsorship will be managed by Sales until the contract end in 2004. Any future national sponsorship will be under the Marketing organization. Local sponsorship will be approved by Marketing and the management of them will be turned over to the local level.
<b>Evaluation of Management's Comments</b>	The intent of our recommendation was to establish a single focal point at headquarters responsible for the management of sponsorships. With the exception of the Pro-Cycling team, all future national sponsorships will be managed out of the Marketing organization, and local sponsorships will be approved by this organization as well. Thus, we consider management's planned actions responsive to the intent of our recommendation and they should correct the issues identified in the report.
Appropriateness of Expenditures	We reviewed ██████████ in sponsorship costs to determine whether they were appropriate and if any of the costs duplicated services or products already paid under the sponsorship agreements. These costs include ██████████ in fees paid under the Pro-Cycling team sponsorship agreements, ██████████ in additional Pro-Cycling team related expenditures, and ██████████ in sponsorship fees for the remaining ten sponsorships. <sup>4</sup>  Our review did not disclose any significant exceptions. However, in some cases accounts were commingled, making it difficult to identify what costs were attributed to the Pro-Cycling team sponsorship.

---

<sup>4</sup> These related expenditures included advertising and promotions as well as hospitalities, lodging, and similar expenses incurred at sponsorship events. We did not identify any additional expenditures related to the other ten sponsorships reviewed.

<b>Recommendation</b>	<p>We recommend the senior vice president, chief marketing officer:</p> <ol style="list-style-type: none"> <li>2. Identify and track all costs associated with each sponsorship initiative.</li> </ol>
<b>Management's Comments</b>	<p>Management agreed with our recommendation and had already taken corrective actions. Management stated that since December 2001, the Sales Support Integration team has tracked all the Pro-Cycling team associated costs. The Advertising group also considers the direct cost of a sponsorship, when approving and evaluating the sponsorship's effectiveness.</p>
<b>Evaluation of Management's Comments</b>	<p>During the audit, we noted a marked improvement in tracking the cost of the Pro-Cycling team sponsorship. Management's comments are responsive to the recommendation. Management's actions taken or planned should correct the issues identified in the report.</p>
Unable to Verify Sponsorships Financial Performance	<p>The Postal Service was unable to fully validate over \$130 million in revenue claimed from two<sup>5</sup> sponsorships. Based on interviews with sales representatives and national account managers, combined with financial analyses, we verified only \$698,000 of the \$18 million claimed by the Postal Service over a 4-year period as revenue generated as a result of the Pro-Cycling team sponsorship. In addition, the Postal Service was not able to validate the \$112 million claimed in 1999 as revenue from sponsorship of the New York Yankees. Postal Service managers stated this new revenue would have been attained regardless of the sponsorship, and it would be difficult to link the revenue to the New York Yankees' sponsorship because so many other factors contribute to increased revenue. As a result, claims of monetary benefits are unsubstantiated and future business decisions that were made based on those claims may result in a waste of funds.</p> <p>Some companies have developed best practices in managing and estimating sponsorships benefits. For example, IEG<sup>6</sup> Incorporated has established methodologies in these areas.</p>

<sup>5</sup> We did not find claims of revenue generated for the other nine sponsorships.

<sup>6</sup> IEG Incorporated is recognized as "the world's leading provider of independent research and analysis on sponsorships."

Their manual entitled, Measuring And Managing Sponsorships Return, describes methods to measure incremental gains in sales revenue. For example:

- Comparing sales for the period surrounding the sponsorship to the same period in prior years.
- Measuring sales in the immediate event area against national sales during the same period.
- Comparing sales in participating retail or dealer outlets versus those not participating.
- Coding new leads generated then tracking how many of them become sales.
- Working with the sales force to track the value of new or incremental business generated by clients who were entertained.
- Calculating the value of new sales to the rights holder and cosponsors.

Armed with the value of increased sales, sponsors can then calculate sponsorships' return-on-investment and the dollar return on money spent to acquire new accounts or customers.

Postal Service management was unable to validate the revenue because prior to 2001, the Postal Service did not have an adequate mechanism in place to track revenues. In 2001, the Postal Service used the Accounts Management System to document account contacts, record sales activities, and sales performance of all national and premier accounts. However, sales representatives did not always input pertinent sales data. Furthermore, a Postal Service manager informed us there were not enough resources to validate revenue.

---

**Recommendation**

We recommend the senior vice president, chief marketing officer, in coordination with the acting vice president, Sales:

3. Ensure data is captured to track sales, leads, and monetary benefits that directly relate to sponsorships.

<b>Management's Comments</b>	Management agreed with our recommendation and had already taken corrective actions. Management stated that since December 2001, area sales managers repeatedly have been reminded to record all sales activities resulting from sponsorships and are working with employees to ensure proper system reporting.
<b>Evaluation of Management's Comments</b>	Management's comments are responsive to the recommendation. Management's actions taken or planned should correct the issues identified in the report.
Lack of Goals and Objectives	<p>The Postal Service's 11 sponsorships, costing [REDACTED] through 2002, did not always have goals and objectives. We found:</p> <ul style="list-style-type: none"> <li>• Ten sponsorships had no goals and objectives or had only vague justifications that could not be measured.</li> <li>• The Pro-Cycling team sponsorship had goals and objectives; however, they were not always measured to determine achievement.</li> </ul> <p>According to best practices regarding the measurement and management of sponsorships' return, articulating measurable objectives is a prerequisite for effective measurement. Explicitly stated goals at the outset should drive everything that follows, from selecting a suitable sponsorship to determining what and how sponsorships will be measured.</p> <p>This lack of establishing goals and objectives occurred because before the year 2000, there was no official policy for planning, initiating, or managing sponsorships. In addition, despite implementation of the <u>Sponsorship Event Policy and Evaluation Manual</u> in April 2000, we were told managers were not following this policy because it is cumbersome to use. Furthermore, sponsorships were initiated without proper evaluations because Postal Service management verbally agreed to participate in the Expedited Package Services sponsorships and employees initiated agreements without the performance of pre-evaluations<sup>7</sup> or establishment of specific measurable goals and objectives. We were also told that during the renewal of the Pro-Cycling team sponsorship those</p>

<sup>7</sup> Pre-evaluations are required by the Sponsorship Event Policy and Evaluation Manual.

responsible for administering the initiative awarded the sponsorship without following the sponsorship event manual.

As a result, for ten of the sponsorships and the first 5 years of the Pro-Cycling team sponsorship,<sup>8</sup> the Postal Service had not measured and/or quantified benefits or return on investment of these initiatives. Consequently, there is only a limited basis on which to build a business case that warrants the initiation or continuation of sponsorships.

We did find, however, that the Postal Service had an evaluation performed to determine the exposure value of the Pro-Cycling team for the year 2001. The study concluded that the value of domestic exposure was three times its contract cost for that year. The analysis arrived at this figure by assigning a value to the exposure, media coverage, promotional activities, and intangible benefits that are included in the sponsorship. However, according to best practices, media exposure can be a distraction to what really matters, which is how the sponsorship impacted sales, shareholder value, and return on investment. Furthermore, the study did not cover the specific fiscal year 2001 monetary goal of increasing revenue by \$20 million.

<b>Recommendation</b>	<p>We recommend the senior vice president, chief marketing officer:</p> <ol style="list-style-type: none"> <li>4. Ensure sponsorships have specific and measurable goals and objectives and update the policy to include this requirement.</li> </ol>
<b>Management's Comments</b>	<p>Management agreed with this recommendation. Management's comments indicated that all sponsorships are based on five goals and objectives, which are the focal point of each analysis, evaluation, and post-assessment. This policy was formalized in the sponsorship event manual in April 2000.</p>
<b>Evaluation of Management's Comments</b>	<p>Management's comments were not responsive to our recommendation. However, following the issuance of their comments, management provided additional</p>

<sup>8</sup> The Postal Service contracted with Foote, Cone, and Belton, Incorporated, to measure the value of the Pro-Cycling team sponsorship in 2001, 5 years after the initial agreement.



documentation clarifying that they plan to issue a directive to ensure each sponsorship has specific and measurable goals and objectives. Management's actions taken or planned should correct the issues identified in the report.

<b>Recommendation</b>	We recommend the senior vice president, chief marketing officer:
	5. Ensure the <u>Sponsorship Event Policy and Evaluation Manual</u> policy is followed to determine suitability, costs and benefits, and measurability.
<b>Management's Comments</b>	Management agreed with our recommendation. Management's response indicated that they are using the sponsorship event policy manual.
<b>Evaluation of Management's Comments</b>	Management's comments are responsive to the recommendation. Management's actions taken or planned should correct the issues identified in the report.
Ineffective Management of Sponsorship Event Tickets and Invitations	<p>The Postal Service ineffectively managed sponsorship event tickets and invitations in 2001. Specifically, the Postal Service (1) did not track 31 percent (776 of 2,524) of its tickets and invitations, and (2) did not follow Postal Service guidelines for 96 percent (1,682 of 1,748) of its tickets and invitations that were tracked.</p> <p>In 1997, the postmaster general, chief executive officer, provided guidance when using these tickets and invitations. According to the guidance, tickets were to be monitored and tracked to document how they were used. Additionally, one of the stipulations was the Postal Service had to follow a ratio of three customers to one Postal Service representative when using the tickets for the purpose of discussing business opportunities. The guidance also allows tickets and invitations to be used, on a limited basis, for employee incentive awards and community relations.</p>

Chart B Depicts the Percentages of Tickets/Invitations Not Tracked On Some Sponsorships

**Chart B**

<b>Event and Number of Tickets in 2001</b>	<b>Total</b>	<b>Total/Percentage Not Tracked</b>
Pro-Cycling team	801	500 (62%)
New York Yankees	1,598	249 (16%)
New York Giants-6 Tampa Bay Devil Rays-4 Masters-5 Heisman-12	27	27 (100%)
Notre Dame	66	0 (0%)
Chicago Bears	32	
<b>Total</b>	<b>2,524</b>	<b>776 (31%)</b>

- While the Postal Service tracked 301 tickets and invitations for Pro-Cycling team sponsorship events, it did not provide distribution information on 500 invitations for one event.
- In another case, the Postal Service did not track 249 of 1,598 New York Yankee tickets for the 2001 season.
- The Postal Service did not provide a distribution listing for 27 tickets for four sponsorships because they were not tracked. Thus, we could not determine how and to whom these tickets were distributed.

Chart C Depicts How Ticket/Invitations Usage Did Not Meet the 3 to 1 Ratio for Some Sponsorships

**Chart C**

	Total Number of Tickets Tracked	Employees	Customers	Number Donated for Community Relations	Ratio of Customer to Employee
Notre Dame	66	17 (26%)	49 (74%)	0	2.8 to 1
Chicago Bears	32	0	32 (100%)	0	32-0
New York Yankees	1,349	1,210 (76%)	39 (2%)	100 (6%)	1 to 31 <sup>9</sup>
Pro-Cycling	301	109 (14%)	192 (24%)	0	1.76 to 1 <sup>10</sup>

- While the Postal Service's sponsorship of Notre Dame met the 3 to 1 ticket ratio (customers to Postal Service employees), three other sponsorships did not. These three sponsorship packages included 1,682 tracked tickets and invitations.
- In the case of the Chicago Bears sponsorship, the log indicated that out of 32 tickets, no Postal Service employees accompanied customers to the events.
- In the case of the New York Yankees, the ratio was 1 customer to 31 employees resulting in employees using over 76 percent of the tickets and customers only 2 percent.<sup>11</sup> Although the guidance allows the tickets to be used for employee incentives on a limited basis, we believe that 76 percent exceeds what would be considered a "limited basis." We did not perform a ratio analysis on the remaining seven sponsorships because they did not have tickets or the data was incomplete.

These conditions occurred because managers responsible for monitoring ticket use were not familiar with the guidance outlining the 3 to 1 ratio.

<sup>9</sup> This ratio represents the allocation of 1,349 tickets tracked by the Postal Service. We do not consider this ratio a true representation because 1,598 tickets were not tracked.

<sup>10</sup> This ratio represents the allocation of 301 tickets tracked by the Postal Service. We do not consider this ratio a true representation because 500 tickets were not tracked.

<sup>11</sup> Of the remaining 22 percent, 6 percent were donated for community relations and 16 percent were not tracked.

As a result, the Postal Service did not fully utilize the tickets and invitations, resulting in a loss of networking opportunities and another avenue to generate revenue. If no employees were present with customers, or if employees attend events without customers, it is not possible to achieve the goal of building business opportunities or relations. Tracking this ticket information consistently would give Postal Service management a tool to ensure the proper mix of employees and customers are using the tickets.

---

**Recommendation**

We recommend the senior vice president, chief marketing officer:

6. Track ticket and invitation usage to ensure they are used as intended and support the goals of building business relations, increasing employee morale, and enhancing community relations. The information tracked should include what revenue or other benefits were generated as a result of relations built at these ticketed events.

---

**Management's  
Comments**

Management agreed with our recommendation and had already taken corrective actions. Management's response indicated that all national and local sponsorship tickets and invitation usage are being tracked.

---

**Evaluation of  
Management's  
Comments**

Management's comments are responsive to the recommendation. Management's actions taken or planned should correct the issues identified in the report.

---

**Sponsorships Public  
Policy Issues**

Based on the Postal Reorganization Act of 1970, the Postal Service is to operate in a businesslike manner, while still maintaining its status as a government entity. As such, it will continue to struggle to balance the goals of operating like a business with having to serve and answer to the public. We found no laws or policies precluding the Postal Service from being involved in sponsorships. However, in light of recent media coverage and public policy debate on sponsorships, it is even more paramount for the Postal Service to justify its actions.

The Sponsorship Event Policy and Evaluation Manual<sup>12</sup> requires evaluations, image assessments, information requests, and business assessments before sponsorships are established to ensure full value from these investments. Additionally, best business practices suggest that ample research and analysis be performed to determine benefits and justify major investments. A pre-evaluation, economic analysis, or business plan was performed for only three, and a post evaluation for only 1 of the 11 sponsorships reviewed.

Since the majority of the sponsorship evaluations were not performed, in our view, the Postal Service needs to develop an overall business case and consider the following issues.

- Does the Postal Service need sponsorships given their statutory monopoly over First-Class Mail?
- Two objectives of the Pro-Cycling team sponsorship were to increase revenue and sales of Postal Service's products on a global basis and to increase sales in key international markets. However, international sales represent only 2.6 percent of the Postal Services annual revenue, and the volume of international mail has been flat or declining since 1996.
- Why should the Postal Service support sponsorships given that it lost over \$1.6 billion in 2001 and \$676 million in 2002, despite reducing costs and raising the price of First-Class stamps?

---

<sup>12</sup> The Sponsor Event Policy and Evaluation Manual, Handbook EL-400, was approved April 2000.

- Why would the Postal Service sponsor the Pro-Cycling team whose major event is the Tour de France when the primary job of the Postal Service is to deliver mail domestically?
- Do the returns (for example, remaining competitive; generating revenue; enhancing brand; and increasing exposure and employee morale) justify the expenditure of [REDACTED] on sponsorships over the last 6 years?
- Has the Postal Service effectively managed and documented sponsorships to a level where it can stand public scrutiny?

---

**Recommendation**

We recommend the senior vice president, chief marketing officer, in coordination with the acting vice president, Sales:

7. Stop engagement in any new sponsorship agreements or extensions on current agreements, until an overall business case is developed.
  - a. If the business case is unfavorable, discontinue sponsorships.
  - b. If the business case is favorable, address the concerns raised in this report before pursuing further involvement in marketing and sales sponsorships.

---

**Management's  
Comments**

Management agreed with our recommendation and had already taken corrective actions. Management stated that all sponsorships will be thoroughly reviewed using the sponsorship event policy manual. No sponsorships will be engaged in without a full review and recommendation from the Advertising managers.

---

**Evaluation of  
Management's  
Comments**

Management's comments are responsive to the recommendation. Management's actions taken or planned should correct the issues identified in the report.

## APPENDIX A. MANAGEMENT'S COMMENTS

ANITA J. BIZZOTTO  
CHIEF MARKETING OFFICER  
SENIOR VICE PRESIDENT



March 25, 2003

RONALD D. MERRYMAN  
ACTING ASSISTANT INSPECTOR GENERAL FOR eBUSINESS

SUBJECT: Draft Audit Report: Postal Service's Involvement in Sponsorships (Report Number OE-AR-03-DRAFT, Project Number 01NG003MK000)

We have reviewed the draft and find that virtually all of your recommendations have already been implemented by the Marketing department.

Attached is a detailed response to your report. The first part of our response includes several inaccuracies which we noted in the draft report. The latter part explains the actions we have taken to track expenses, ticket usage and results of the sponsorships in which the United States Postal Service is engaged.

The Postal Service considers the amount spent on sponsorships to be proprietary information and exempted from release under the Freedom of Information requirements. It is part of our overall advertising budget and we do not release information about individual parts of that budget nor do we discuss the amount of the contracts publicly. Please see pages 1, 2, 5 and 13 which contain information we do not want released. We have highlighted in yellow on the attached copy of your draft report the information we would like to have removed from the final version.

Please let me know if you have any questions and if you do not accept our request for protection of the budget information.

A handwritten signature in black ink that reads "Anita Bizzotto".

Anita J. Bizzotto

Attachment

cc: Mr. Strasser  
Ms. Gibbons  
Mr. Jaffer  
Mr. Strange  
Ms. Duchek

1735 NORTH LYNN STREET  
ARLINGTON VA 22209-6000  
703-292-3676  
FAX: 703-292-3753  
www.usps.com

**RESPONSE TO DRAFT AUDIT REPORT: THE POSTAL SERVICE'S INVOLVEMENT IN  
SPONSORSHIPS (REPORT NUMBER OE-AR-03-DRAFT, PROJECT NUMBER  
01NG003MK000)**

Report Inaccuracies

- On page 1, Chart A indicates that the Postal Service had a sponsorship with "DM Days" in 2001. DM Days New York is a tradeshow event at which the USPS has participated. Like other such events, show-specific sponsorship opportunities are made available (e.g., title sponsorship of the event, badge lanyards with company advertising, advertising banners, etc.). Although the Postal Service has been a sponsor of this event in the past, we did not participate in 2002 and are not participating in 2003. We consider these types of sponsorships to be completely different from the national and regional sponsorships under review by your team during this audit.
- Page 1 of the report states that all sponsorships were transferred to Advertising. This is not correct. The Advertising group analyzes and evaluates a sponsorship, makes recommendations, and oversees the pre-and post-evaluation process, but does not manage the sponsorship. Management of sponsorships remains at either a local or national level once approved by the Chief Marketing Officer. Expedited Package Service (EPS) was responsible for the event management of eight sponsorships noted on page 1. EPS was disbanded as a group in 2001 and six of the sponsorships they previously managed have expired. The remaining two are now managed in the field at an area office.
- Page 6 of the report states that postal management was "...unable to validate the revenue [for sponsorships] because the Postal Service did not have an adequate mechanism in place to track revenues." This is not accurate. The Postal Service has several systems that track revenue, account management information and sales activities. The Account Management system (AM) used by the national account managers, account representatives, and their managers, provides tracking capability for specific customer events and sales opportunities and closed sales (i.e., new revenue). In addition, the Sales Management Account Revenue Tracking System (SMARTS) is used by sales specialists (field sales representatives who work exclusively on sales opportunities) to track all sales opportunities from discovery to sale closure. Both of these systems were functional prior to 2001 and were used to track new revenues generated from all lead sources, including the USPS Pro Cycling Team. As the audit report indicates, however, field sales employees did not always enter appropriate data into the system so that new revenue could be tracked directly back to a particular event or combination of events.
- The April 2000 date (page 7) for implementation of the Sponsorship Event Policy and Evaluation Manual is misleading. The USPS sponsorship policy was implemented in the summer of 1998. All field personnel were briefed on how and when to apply for sponsorship funds. Instructions were disseminated repeatedly to the field and Headquarters via hardcopy and electronic media and in oral communications in advertising group meetings from 1998 until a final manual was published in April 2000.
- On page 8, under the section related to measurement of goals and objectives, the report states that "...media exposure can be a distraction to what really matters, which is how the sponsorship impacted sales, shareholder value, and return on investment." We do not agree entirely with this statement and believe that media exposure is a very important part of any sponsorship arrangement. We commissioned an independent sports marketing company to evaluate the non-media and media value of the USPS Pro Cycling sponsorship for the 2001 and 2002 seasons including domestic races and the Tour de



France. These evaluations, which were conducted using industry approved standards, provided data to prove that the media value alone for the 2001 and 2002 USPS Pro Cycling Team seasons represented more than three times the cost of the sponsorship.

- On page 9 Chart B indicates that in 2001, 500 tickets to a pro cycling event were not tracked by USPS (i.e., no records were kept to reflect who used these tickets at the event). The Postal Service was not provided with five hundred tickets to any cycling event in 2001. Since reorganization of the Marketing department in 2001, a process has been put in place that tracks all tickets and their usage.
- Also on page 9, the guidance noted in establishing a ratio of customers to employees was a guide to follow and not a policy. Measures have been put into place establishing a more detailed accountability and ratio configuration for ticket tracking. Sponsorship tickets are a major component of a sponsorship purchase—they serve dual purposes for the sponsor and purchaser. Tickets are distributed to a sponsor in different manners. Some sports teams distribute tickets according to season schedule, according to how a team is performing, or at the discretion of the sponsoring ticket manager. Tickets are distributed in blocks that are not otherwise available to the general public. Sponsorship tickets are the platform upon which most sponsorship offerings are built. If the goals of a sponsorship purchase are to create revenue and establish customer loyalty, tickets are the key. It is in this way that a sponsor is able to leverage their business relationship with a customer and acquire sales and product loyalty.

It is not just the signage associated with the sponsorship that increases sales potential, but also the opportunity to associate with other co-sponsors as potential customers. Tickets and sponsorship events are only a means to facilitate this activity. The distribution of tickets is often presented as a "last minute availability opportunity" from the sponsor. In this case, customers decline a ticket offer, accept an offer and later give the tickets away or the Postal Service uses the tickets as means to reward employee performance. In all of these scenarios, the tickets might go unused and an opportunity is missed.

Sponsorships include various numbers of tickets and sponsors are known to "drop-off" additional tickets throughout a season. These are tickets that were undersold at the box office. This practice also accounts for a skewed ratio distribution of tickets between customers and employees.

The local sponsorship manager is encouraged to negotiate the return of tickets for greater media, print or radio coverage. Sponsors are often unwilling to comply or even consider this opportunity because tickets generally have limited value to the sponsor organization.

#### Recommendation # 1

We recommend the senior vice president, chief marketing officer:

1. Formally appoint one executive with responsibility over all Postal Service sponsorships and management of the program.

#### Response

Management disagrees with this recommendation. Below is our current process and how we intend to manage sponsorships in the future:

Currently, the Postal Service's only national sponsorship is the US Postal Service Pro Cycling Team. This sponsorship is managed by the Sales organization and will continue to be managed by that group through the end of the contract in 2004. The management of any future national sponsorship will remain within the HQ Marketing organization.

The senior vice president, chief marketing officer will make the final decision on Postal Service participation in future sponsorships, and which department within the marketing group or in the field will manage them. Once HQ evaluates and senior vice president, chief marketing officer approves a local sponsorship opportunity, the responsibility for managing the sponsorship moves to a local level. Measures have been put in place to assist the field in the local management of a sponsorship. Presently, only two sponsorships are in place: New York Yankees and New York Giants.

Recommendation #2

We recommend the senior vice president, chief marketing officer:

2. Identify and track all costs associated with each sponsorship initiative.

Response

We agree, and we are already doing this.

Since December 2001, when management of the US Postal Service Pro Cycling Sponsorship changed, Sales Support Integration (the department within Sales responsible for the sponsorship) has tracked all associated costs. Separate records for sponsorship associated expenses are maintained by that office.

The Advertising group approves and evaluates the effectiveness of a sponsorship, taking into consideration direct cost of a sponsorship—purchase price, signage creative, signage placement, etc. Indirect cost associated with a sponsorship such as administrative, supply, printing, and labor costs are reported under general marketing program cost.

Revenue claimed from sponsorships is tracked by an increase in product purchase and sales from businesses and local sales. This resource is confirmed through SMARTS and CBCIS reporting systems.

The Postal Service brand equity study conducted with consumers in years 2000 and 2001 showed that a sponsorship was a noted driver of the Postal Service brand creating growth, revenue and customer loyalty. More specific sponsorships had a four percent impact on the brand as a lever along with brand identity and advertising. Measurements associated with sponsorships showed an increase of sponsorship impact from 76.5 percent to 80.9 percent in the period between 2000 and 2001.

Recommendation #3

We recommend the senior vice president, chief marketing officer, in coordination with the acting vice president, Sales:

3. Ensure data is captured to track sales, leads, and monetary benefits that directly relate to sponsorships.

Response

We agree, and we are already doing this.

All sales activity associated with sponsorships is tracked in the Account Management System or SMARTS and has been required to be reported for a number of years. These systems will be combined into a new system, STARS [Sales Tracking and Retention System] effective March 24, 2003. Systems are dependent upon people to enter data; in the past, many pro cycling-related customer events were not properly recorded in Sales' databases. Since management for the Team sponsorship changed in December 2001, Area Sales Managers repeatedly have been reminded of the importance of recording all sales activity resulting from sponsorships (as well as other lead sources) and are working with their employees to ensure proper system reporting.

In addition, the Sales department engaged an outside sports marketing agency to conduct an analysis of the USPS Pro Cycling Team domestic non-media and media exposure including print, television and internal media value for the sponsorship during the 2001 and 2002 season at domestic races and the Tour de France. A similar evaluation and comprehensive report on the value USPS derives from the sponsorship will be completed in 2003 and 2004.

As noted earlier, all sponsorships are based on five goals and objectives which are the focal point of each analysis, evaluation, management, and post- assessment. These goals and objectives are noted in the Sponsorship & Event Manual.

Recommendations #4 and #5

We recommend the senior vice president, chief marketing officer:

4. Ensure sponsorships have specific measurable goals and objectives, and update the policy to include this requirement
5. Ensure the Sponsorship Event Policy and Evaluation Manual policy is followed to determine suitability, costs and benefits, and measurability

Response

We agree, and we are already doing this.

As noted above, all sponsorships are based on five goals and objectives which are the focal point of each analysis, evaluation, management and post- assessment. This policy has been in place since 1998 and was formalized in the sponsorship event manual in April 2000.

In addition, a USPS Pro Cycling Team Guide was produced by the Sales department for 2002 and 2003. This book contains the goals and objectives for the US Postal Service Pro Cycling Team sponsorship and will be updated each year. Since 2001, no specific sales goal has been established for the Pro Cycling Sponsorship. However, all sales activity associated with Team events is being tracked in Sales' databases.

Recommendation #6

We recommend the senior vice president, chief marketing officer:

6. Track ticket and invitation usage to ensure they are used an intended and support the goals of building business relations, increasing employee morale, and enhancing

community relations. The information tracked should include what revenue or other benefits were generated as a result of relations built at these ticketed events.

Response

We agree, and we are already doing this.

All tickets for USPS Pro Cycling Team events are being tracked by the Sales department. Area/District support is enlisted for all domestic events, and guests must be approved by USPS Sales at Headquarters before invitations are issued. Additionally, each guest request must be accompanied by information on the company's relationship and revenue base with USPS, including any new sales opportunities. All sales activity resulting from customer participation at these events is tracked in Sales' databases.

In addition, procedures have been put in place to track ticket usage and revenue generated for all locally managed sponsorships.

Recommendation #7

We recommend the senior vice president, chief marketing officer, in coordination with the acting vice president, Sales:

7. Stop engagement in any new sponsorship agreements or extensions on current agreements, until an overall business case is developed.
  - a) If the business case is unfavorable, discontinue sponsorships.
  - b) If the business case is favorable, address the concerns raised in this report before pursuing further involvement in marketing and sales sponsorships.

Response

We agree, and we are already doing this.

As stated earlier, all sponsorship opportunities will be thoroughly reviewed using the Postal Service's Sponsorship Event Policy and Evaluation Manual. No sponsorships will be engaged in without a full review and recommendation from the Advertising department managers. Concerns raised in this report will be taken into consideration if the business case for a sponsorship is favorable before USPS pursues it.

We appreciate the opportunity to review and respond to this document

## APPENDIX B

### OIG's Response to Management's Comments Claiming Report Inaccuracies

We appreciate management's response to our draft report and the actions already initiated to improve the management and use of sponsorships. The following presents management's comments claiming report inaccuracies and the OIG's response. We also reference management's comments sections in Appendix A as appropriate.

1. DM Days is not a sponsorship. (For the full management comment - see Appendix A, page 17, paragraph 1.)

OIG's Response: When the OIG requested a list of all sponsorships DM Days was provided by the Postal Service as a sponsorship. DM Days was, therefore, evaluated along with the 10 other sponsorships. As discussed in their comments, since the Postal Service does not feel DM Days is the same type sponsorship as others reviewed, we added a clarifying footnote on page 1 to the report.

2. All sponsorships (except Pro-Cycling team) were transferred to Advertising. (For the full management comment - see Appendix A, page 17, paragraph 2.)

OIG's Response: The OIG statement in the report is accurate. A memorandum dated August 11, 1999, indicated that all local sponsorships requests . . . should be referred to Advertising at headquarters. In addition, in an interview with the senior vice president, chief marketing officer on August 8, 2002, this official stated, as a result of the 2001 reorganization, with exception of the Pro-Cycling team, all sponsorships are being coordinated and managed through Advertising.

3. Unable to validate revenue because the Postal Service did not have an adequate mechanism in place to track revenue. (For the full management comment - see Appendix A, page 17, paragraph 3.)

OIG's Response: The OIG statement in the report is accurate. Although we agree that the systems reviewed may have the capability to track revenue, the mechanisms (as a whole) in place during our review did not provide the ability to validate revenue claimed. In addition, management's comments accurately state field sales employees did not always enter appropriate data into the system so that new revenue could be directly tracked back to an event or combination of events. Thus, we could not always validate revenue claimed.

4. The April 2000 date of Sponsorship Event Policy and Evaluation Manual is misleading. (For the full management comment - see Appendix A, page 17, paragraph 4.)

OIG's Response: The OIG statement in the report is accurate. We used the April 2000 date because that is the official date when the policy was finalized. Management's response states this final manual was published in April 2000 as well.

5. The Postal Service did not entirely agree that media exposure can be a distraction. (For the full management comment - see Appendix A, page 17, paragraph 5).

OIG's Response: The OIG statement in the report is accurate. This criterion was taken verbatim from IEG Incorporated (a recognized world leading provider of independent research and analysis on sponsorships) best practices which states "media exposure can be a distraction to what really matters." We, however, agree with management's comments that media exposure is important.

6. The Postal Service was not provided with 500 tickets to any cycling event. (For the full management comment - see Appendix A, page 18, paragraph 2.)

OIG's Response: The OIG statement in the report is accurate. A sales support/account management specialist working on the Pro-Cycling team sponsorship at the time and a sales and business manager with Threshold Sports, LLC, provided this information. They informed us that one of the Pro-Cycling team events had 500 invitations/tickets. The Postal Service could not provide a distribution listing of tickets for this event.

7. Guidance noted in establishing ratio of customers is not policy. (For the full management comment - see Appendix A, page 17, paragraph 3.)

OIG's Response: The OIG statement in the report is accurate. We never stated in the report that this guidance was policy. Regardless, an adequate mix of customers and Postal Service representatives was not obtained.