OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Revenue Sharing Agreements

Audit Report

September 14, 2012

Report Number FI-AR-12-004

OFFICE OF
INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

September 14, 2012

Revenue Sharing Agreements

Report Number FI-AR-12-004

BACKGROUND:
The U.S Postal Service enters into revenue sharing agreements with various partners who are more efficient at providing certain services and products. Revenue sharing is a process where the Postal Service and its alliance partner share the generated revenue.

Our objective was to determine the efficiency and effectiveness of select revenue sharing agreements. Specifically, we reviewed Imagitas, Inc., Dinero Seguro®, Click2Mail, and Endicia agreements to determine whether Postal Service management and alliance partners are complying with agreement controls, revenue share amounts are valid and accurate, and the relationship between the Postal Service and alliance partners is functioning effectively.

WHAT THE OIG FOUND:
For three of four agreements reviewed, management and alliance partners complied with agreement requirements, revenue sharing amounts were valid and accurate, and the relationship was efficient and effective. For the Click2Mail agreement, management did not implement a process to validate postage and the revenue from the production of mailpieces or require the alliance partner to provide detailed data on the number of visitors and total visits the Click2Mail website receives from the Postal Service's website. In addition, the Postal Service's relationship with Click2Mail needs improvement. Specifically, the Postal Service did not address Click2Mail's concerns in a timely manner, which caused a revenue loss of about $447,000 within the past year. Finally, management did not maintain a central repository for revenue sharing agreements to ensure timely, efficient, and accurate retrieval of information; and policies and procedures on establishing and monitoring revenue sharing agreements were not clear.

WHAT THE OIG RECOMMENDED:
We recommended developing a process to verify Click2Mail sales transaction data for completeness and accuracy; obtaining web traffic data to verify Click2Mail revenue sharing; developing a process to address alliance partner concerns within mutually agreed timeframes; and communicating goals and developing a process to measure agreement performance. We also recommended establishing a central repository for all revenue share documentation; and developing and disseminating detailed procedures for creating, designing, and monitoring agreements.

Link to review the entire report

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 14, 2012

MEMORANDUM FOR: NAGISA MANABE
EXECUTIVE VICE PRESIDENT AND
CHIEF MARKETING/SALES OFFICER

STEPHEN J. MASSE
ACTING CHIEF FINANCIAL OFFICER

MARY ANNE GIBBONS
EXECUTIVE VICE PRESIDENT AND GENERAL COUNSEL

FROM: John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

SUBJECT: Audit Report – Revenue Sharing Agreements
(Report Number FI-AR-12-004)

This report presents the results of our audit of Revenue Sharing Agreements (Project Number 12BG009FI000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Denice M. Millett, director, Policy Formulation & Financial Controls, or me at 703-248-2100.

Attachments

cc: Gary C. Reblin
Kelly M. Sigmon
Giselle E. Valera
Cynthia Sanchez-Hernandez
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of Revenue Sharing Agreements (Project Number 12BG009FI000). Our overall objective was to determine the efficiency and effectiveness of select revenue sharing agreements. Specifically, we reviewed Imagitas, Inc., Dinero Seguro®, Click2Mail, and Endicia agreements to determine whether:

- U.S. Postal Service management and alliance partners were complying with revenue sharing agreement reporting controls.
- Revenue share amounts were valid and accurate.
- The relationship between Postal Service and alliance partners was functioning effectively.

This self-initiated audit addresses financial risk. See Appendix A for additional information about this audit.

The Postal Service enters into agreements with various partners who are more efficient at providing certain services and products. These agreements can contain benefits for both parties, such as revenue sharing. Revenue sharing is when the Postal Service and the partner share the revenue generated from developing and marketing joint products. Examples include the Postal Service receiving a commission when a visitor to the Postal Service's website registers and purchases mail products from Click2Mail and Imagitas sharing advertising revenue from joint efforts associated with the change of address program. Other benefits, though less tangible, are goodwill and visibility.

Postal Service management identified 14 total revenue sharing agreements. These agreements generated about $42.2 million in shared revenue[1] and $2 billion in postage[2] revenue in fiscal year (FY) 2011.[3] Of the 14 agreements, we reviewed four that generated about $36.8 million in shared revenue and about $1.3 billion in postage revenue during FY 2011.

Conclusion

For three of four revenue sharing agreements reviewed, Postal Service management and alliance partners complied with agreement reporting requirements, revenue sharing amounts were valid and accurate, and the relationship between the Postal Service and

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[1] The Postal Service's share of revenue generated from developing and marketing joint products with an alliance partner.
[2] Postage on products such as First-Class Mail®, Standard Mail®, Express Mail®, Priority Mail®, and International Express and International Priority Mail.
[3] Examples of the services or products provided by the 14 revenue sharing agreements include labels, postcards, and computer-based postage.

alliance partners was efficient and effective. For Click2Mail, the fourth agreement, management did not implement a process to validate postage and production revenue[4] data or require the alliance partner to provide monthly data on web traffic. In addition, the relationship between the Postal Service and Click2Mail needs improvement. Specifically, the Postal Service did not address Click2Mail concerns in a timely manner, which caused a revenue loss of about $447,000 for the Postal Service in FYs 2011 and 2012. Finally, management did not maintain a central repository for revenue sharing agreement documentation to ensure timely, efficient, and accurate retrieval of information; and policies and procedures on establishing and monitoring agreements were not clear. Without clear guidelines and sufficient oversight of the revenue sharing process, the Postal Service could lose revenue and have difficulty making informed decisions.

Postage and Production Revenue Validation

Management did not develop a method to obtain independent revenue sharing data to validate the completeness and accuracy of data provided by Click2Mail. Instead, management relied on Click2Mail's monthly sales transaction spreadsheet and only recalculated the production revenue portion to confirm the mathematical calculations. In addition, they did not verify that the spreadsheet identified all customers originating from USPS.com[5] or that corresponding purchase transactions were complete and accurate. As a result, the Postal Service was unaware that Click2Mail owed $150,540 in revenue sharing due to a system registration failure that occurred from July 2008 through November 2009, until informed by Click2Mail.[6] We also identified a similar issue in our report on the standard mail volume incentive program[7] for business mailers where the Postal Service relied on mailers' customer data to calculate net revenue contributions and increased mail volume.

The Postal Service is responsible for ensuring the accuracy and reliability of its data. According to the program manager, they did not independently verify data because they had limited resources in areas such as personnel and funds. In addition, the program manager stated that conducting an audit of Click2Mail would cost the Postal Service more than the production revenue received from the agreement. However, we found that, in the past, they verified the data by periodically creating accounts with Click2Mail and mailing items to determine whether the alliance partner was properly recording transactions and sharing revenue. We also noted in the other three agreements reviewed (which have higher revenue) that management had methods in place to validate the data. For example, Postal Service management validates Imagitas data using an external certified public accounting firm. By not having a standardized process

[4] Revenue generated by Click2Mail for producing mailpieces for customers. The Postal Service receives a percentage of the production revenue for the duration of the customer's account.
[5] Click2Mail pays the Postal Service a commission if a visitor to the Postal Service's website purchases hybrid mail products from Click2Mail.
[6] In March 8, 2011, Click2Mail entered into a repayment plan to pay the Postal Service $149,535 of production revenue and $1,005 of interest revenue, for a total of $150,540 for the underpayment of revenue and interest by September 1, 2011.
[7] *Fiscal Year 2009 Standard Mail Volume Incentive Program* (Report Number FF-AR-10-196, dated July 16, 2010).

in place to verify data, management may not discover errors, omissions, and inconsistencies that negatively affect revenue.

Web Activity Verification

Management did not receive the necessary data from one of the four alliance partners to effectively monitor its agreement. Specifically, management did not require Click2Mail to provide the monthly web traffic data reports[8] needed to show website activity. Management planned to use the report to:

- Identify the number of times the Click2Mail hyperlink was accessed on the USPS.com website.
- Determine the number of customers who registered from the website.
- Establish how many of the registered customers made purchases of Postal Service products from Click2Mail.

This process would allow management to verify shared revenue by determining which customers made purchases. For the other three agreements reviewed, Postal Service management received the necessary reports to validate the data. For example, Endica management provides daily log files and detailed monthly invoices.

According to the agreement, Click2Mail must provide the web traffic data report to the Postal Service within 10 calendar days after the end of each month. The Postal Service contractor who oversees the agreement stated that, due to an oversight, he did not require Click2Mail to provide the report. After we inquired about the report, the Postal Service contractor requested and received a web traffic data report;[9] however, the report did not provide the necessary data to determine the number of customer registrations and purchases. Without the additional data included in the report, the Postal Service could not verify the shared revenue, which could lead to a potential loss of revenue.

Click2Mail Relationship

The Postal Service's relationship with Click2Mail needs improvement. Specifically, the Postal Service was not effective in addressing Click2Mail's concerns in a timely manner and communicating goals.

[8] The web traffic report represents detailed information about the visits a website receives. The Postal Service incorporated the monthly report requirement into the revenue sharing agreement, dated August 2011.
[9] The contractor received one web traffic report that included data from October 2011 through April 2012.

Timeliness

The Postal Service redesigned its USPS.com website in July 2011 to improve the customer experience.[10] However, Click2Mail believed this redesign resulted in a negative impact on its ability to obtain new users from USPS.com. Click2Mail's management immediately notified Postal Service management of the negative impact. The Postal Service did not address Click2Mail's concerns until about 8 months later. As a result, the Postal Service lost about $447,000[11] in revenue sharing and postage revenue, and Click2Mail lost about $280,000 in production revenue.

On the redesigned website, when customers selected the 'Design Mail & Postage' web page, the 'Postage' tab would open first, and it did not include the Click2Mail website hyperlink.[12] Therefore, potential users had to search USPS.com to locate the Click2Mail hyperlink. In addition, Click2Mail management mentioned that their hyperlink is no longer in multiple locations on USPS.com, and they believe this also caused them to lose new users and business.

After the redesign, new Click2Mail users acquired from USPS.com decreased from about 400 per week to less than 100 per week between January 2011 and April 2012. Figure 1 illustrates the decrease in the number of new Click2Mail users.

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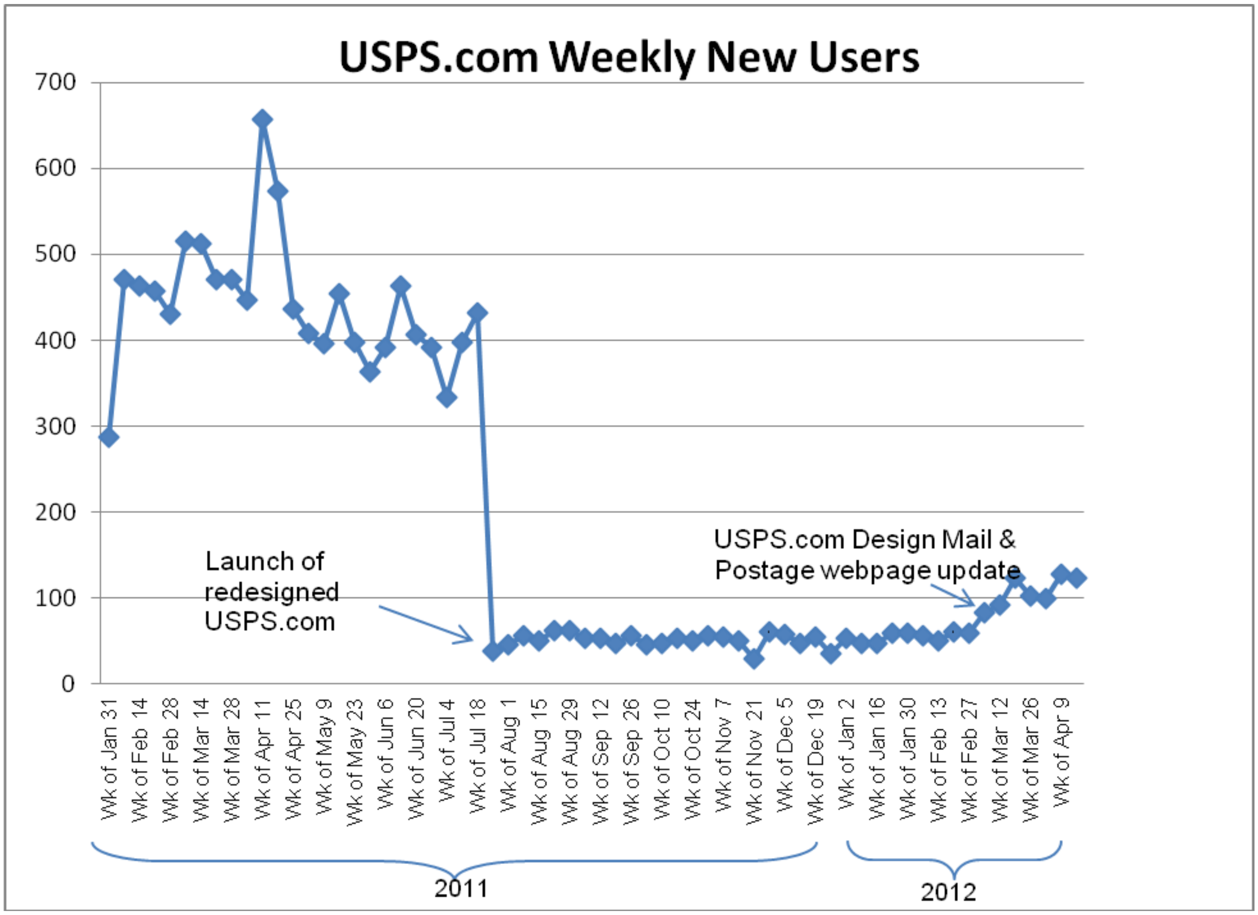
[10] Improving the customer experience involves making the website convenient, simple, and consistent for households and small businesses.
[11] Production revenue loss of $31,000 and postage revenue loss of $416,000 for the 40 weeks since the new website launched.
[12] According to the agreement, the Postal Service is required to provide Click2Mail hyperlinks on USPS.com through which visitors may obtain information about Click2Mail products and services. The Click2Mail website hyperlink is located in the 'Mail' tab.

Figure 1. Click2Mail USPS.com Weekly New Users



Source: Click2Mail; Manager, Customer Operations.

In March 2012, the Postal Service updated its 'Design Mail & Postage' web page to allow the 'Mail' tab, which includes the hyperlinks to Click2Mail and other revenue sharing partners, to open first. This modification has helped increase the number of new users, but not to the previous level experienced. Management stated that everyone would like to have a greater presence on USPS.com; however, that is not possible. In addition, management stated they needed to address concerns related to the website's functionality prior to making additional modifications.

The Postal Service receives a percentage of the production revenue and all of the postage revenue generated from customers who register with Click2Mail using the hyperlink on the USPS.com website. We determined that, on average, the redesigned website reduced the number of new USPS.com Click2Mail users by 371 per week and reduced new production and postage revenue payable to the Postal Service by about $11,167 per week.

We reviewed the relationships with the other alliance partners and found that timeliness of issue resolution has not been a concern. For example, neither Imagitas nor Endicia expressed problems or issues that were not addressed in a timely manner. If the Postal Service does not make additional modifications to its website to direct new users to Click2Mail's hyperlink, they could lose about $581,000 annually.[13] See Appendix B for monetary impact.

Communicating Goals

Management did not clearly communicate its expectations or goals to Click2Mail to help both organizations better support one another. Specifically, management did not implement an appropriate performance measurement process relevant to its revenue sharing agreement to determine how well Click2Mail is meeting expectations or goals. Our research indicated that organizations should communicate business objectives clearly, so both can realize when goals have been met. For example, the Postal Service and Endicia agree to provide and review progress reports on business performance twice per year; the Imagitas agreement calls for review and discussion of the business plan and annual budget; and the Dinero Seguro agreement requires a business plan which addresses the objectives and goals.

When asked whether the Postal Service established specific goals for the Click2Mail revenue sharing agreement, the program manager stated that at the start of the program there may have been specific goals; however, since personnel have changed several times over the life of this program, management no longer has historical documents and specific goals are unknown. By communicating the goals and monitoring progress, the Postal Service and Click2Mail would be in a better position to evaluate whether or not the partner relationship is working and where the organizations can increase revenue.

We believe the Postal Service has established a good working relationship with higher revenue generating partners, such as Imagitas and Endicia; however, considering the current financial situation of the Postal Service, it is important to develop strong relationships with all partners.

Central Repository for Documentation

Management did not have a central repository for all revenue sharing agreement documentation. For example, the current program manager for the Click2Mail agreement could not locate the initial documentation, including the business plan or solicitation documentation. This information could have assisted in determining and evaluating revenue projection and the costs associated with the agreement. In addition, in an effort to locate documentation for the Imagitas agreement, management directed us to three different managers before we eventually obtained the documentation from the legal department. According to our research, successful organizations have the ability to identify, locate, and retrieve documentation to support ongoing business

[13] The revenue loss of about $581,000 represents production revenue loss of $40,513, and postage revenue loss of $540,176 going forward for a 52-week period.

activities. Additionally, it is good business practice to use an electronic or hard copy central repository to ensure timely, efficient, and accurate retrieval of information.[14]

Although the chief marketing/sales officer oversees all the functional groups that oversee the agreements, management stated that a central repository does not exist because each program manager is responsible for maintaining his or her own documentation. The Click2Mail program manager stated that the original business plan and solicitation information is dated and no longer applicable since the agreement has changed dramatically over the years. While the information may be dated, the Postal Service has had many changes in personnel over the years and a central repository of documentation could help management minimize the loss of knowledge and historical data and assist with future decision making.

Revenue Sharing Process

Management does not have clear policies and procedures in place to assist personnel with establishing new or modifying existing revenue sharing agreements. One policy[15] provides management with detailed instructions on how to define the project, determine the potential benefits, and draft and negotiate the agreement. However, on January 14, 2011, the postmaster general issued a delegation of authority letter with limited guidelines related to all promotional and revenue-generating activities. The delegation is an effort to streamline the revenue sharing agreement process by requiring personnel to:

- Incorporate all applicable laws, regulations, and treaties into the agreement.
- Obtain a legal department review.
- Certify cost coverage[16] in accordance with Board of Governors and Postal Regulatory Commission guidelines.

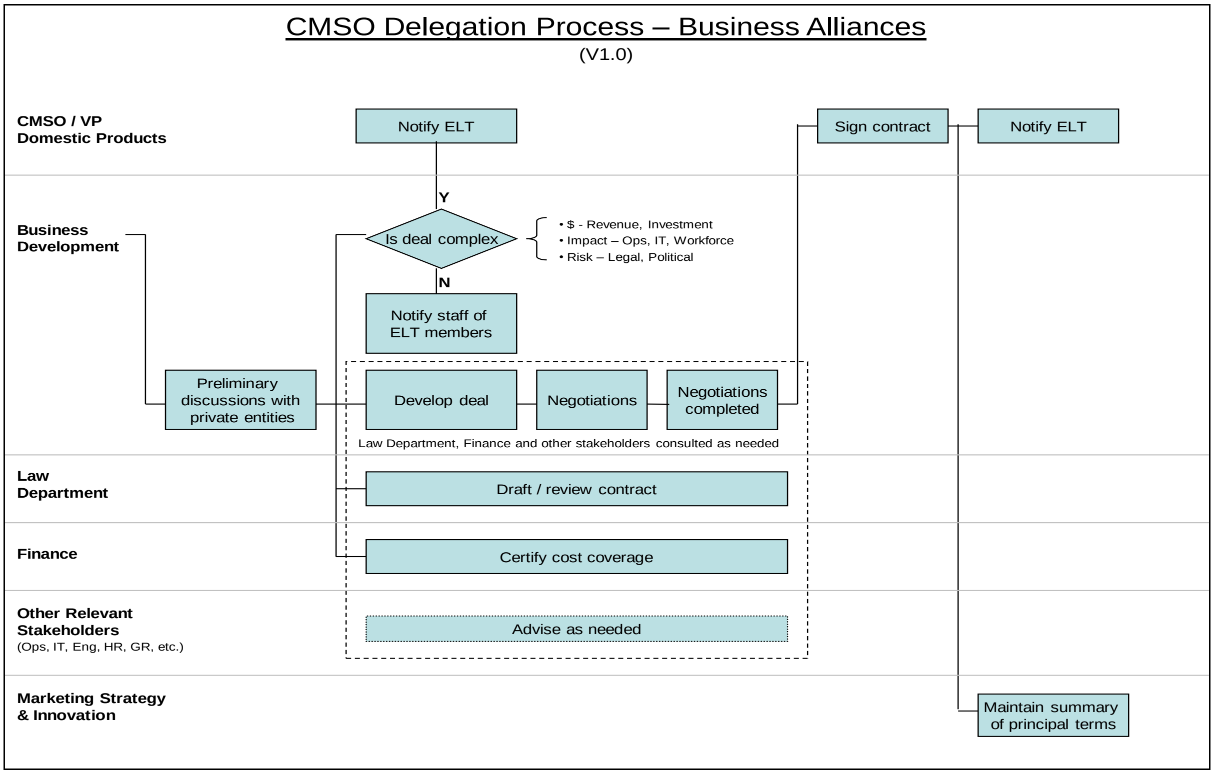
For the four agreements reviewed, we could not determine whether the Postal Service adhered to the delegation of authority letter requirements because some of the processes and procedures overlap or conflict with the coexisting policy. In addition, two of the agreements were signed prior to the delegation of authority letter.

Fourteen months[17] after issuance of the delegation of authority letter, management released a basic delegation process flowchart to select individuals that provided general information on revenue sharing agreement procedures. The flowchart shows

[14] Association of Records Managers and Administrators Generally Accepted Recordkeeping Principles, approved February 20, 2009.
[15] Handbook F-66D, *Investment Policies and Procedures — Business Initiatives, Alliances, Real Estate Development, and Major Operating Expense Investments*, Chapter 4, February 2006.
[16] In accordance with Title 39 of the United States Code, Section 3633, the Postal Regulatory Commission must ensure that each competitive product covers its attributable costs.
[17] The postmaster general issued the delegation of authority letter in January 2011 and in late March 2012 (during our audit), management distributed the Chief Marketing Sales Officer Delegation Process – Business Alliances flowchart.

the responsibilities of each department and the processes they are required to follow, such as the law department's review of all contracts and the finance department's certification of cost coverage. See Figure 2 for delegation process.

Figure 2. Chief Marketing Sales Officer Delegation Process (CMSO) – Business Alliances[18]



Source: Manager, Marketing Strategy and Innovation.

Management believes the new approach allows them to meet their goal of streamlining the revenue sharing agreement process by reducing the number of reviews and approvals. However, they did not officially communicate the requirements to the entire organization and some groups are not following the new streamlined approach. For example, the global business team, which is responsible for designing the new Electronic Money Transfer Service agreement, is using guidelines put in place in 1997, during a former postmaster general's tenure.

Management believes the detailed policy in Handbook F-66D is obsolete due to issuance of the delegation of authority letter and that the overall revenue sharing process is a work in progress. Management stated they would develop detailed guidelines in the future. Revenue sharing agreements have high public visibility and the potential to significantly impact the Postal Service's revenue; therefore, it is crucial that management have clear processes and procedures in place to allow them to make informed and effective decisions.

[18] CMSO/VP – chief marketing sales officer/vice president; Ops – Operations; IT – Information Technology; Eng – Engineering; HR – Human Resources; GR – Government Relations; ELT – Executive Leadership Team.

Recommendations

We recommend the chief marketing/sales officer direct the Click2Mail program manager to:

1. Develop a process to independently verify sales transaction data for completeness and accuracy.

2. Develop a process to determine what data is available on web traffic and visits from the USPS.com website to the Click2Mail website to verify revenue sharing customer registrations and purchases of Postal Service products.

3. Develop a process to address business alliance concerns within a mutually agreed upon timeframe to avoid revenue loss.

4. Communicate goals and develop a process to measure the performance of the revenue sharing agreements, at least annually.

We recommend the chief marketing/sales officer:

5. Establish and maintain a central repository for all revenue sharing agreement documentation.

We recommend the chief marketing/sales officer, in coordination with the acting chief financial officer and general counsel:

6. Develop detailed policies and procedures for creating, designing, and monitoring revenue sharing agreements and disseminate the new procedures to the entire organization.

Management's Comments

Management provided two sets of comments. The first set of comments, dated August 21, 2012, did not state agreement or disagreement with the findings, recommendations, and monetary impact. The second set of comments, dated August 22, 2012, addressed agreement or disagreement with the findings, recommendations, and monetary impact, but did not provide details on planned or taken corrective action. We included both sets of comments in Appendix C to provide the Postal Service's complete response.

Management agreed with recommendations 1, 4, 5, and 6 to implement a process to monitor and communicate goals with revenue sharing agreement partners, establish a central repository of revenue sharing agreement documentation, and develop detailed revenue sharing agreement policies and procedures. In addition, management agreed with recommendation 3 to address business alliance concerns, but disagreed with the monetary impact's magnitude of revenue loss totaling $1.4 million. Further, management disagreed with recommendation 2 to monitor web activity associated with Click2Mail to verify revenue sharing customer registrations and purchases of Postal Service products.

In regard to finding 1, management agreed that sales transaction data should be verified and stated that they implemented a process to verify transactions in May 2012. This process will help minimize the risk of lost revenue while keeping the cost of reviewing transactions in line with the risk.

Management disagreed with recommendation 2 to verify registrations and purchases beyond what is currently in place. They maintain that the revenue levels do not justify the infrastructure. They believe the current process for tracking the click-through rate from USPS.com to their partner's sites and receiving a monthly web traffic report from the partner are sufficient. They also stated they have begun tracking the percentage of traffic originating on USPS.com versus all other sources of the partner's site. They added that once the partner has surpassed a certain revenue threshold, they could add a required independent audit to the terms of the agreement.

Regarding recommendation 3, management agreed to address business alliance concerns within mutually agreed upon timeframes to avoid revenue loss. Specifically, each quarter, management will hold formal discussions with each affiliate where they address goals, tactics, and concerns. However, management disagreed with the magnitude of the revenue loss included in our report. They acknowledged there has been revenue loss, but their analysis shows that, on average, 82 percent of Click2Mail's revenue is generated by current customers versus 18 percent by new customers each month.

For recommendation 4, management agreed to communicate goals and develop a process to measure performance of revenue sharing agreements by October 1, 2012. Management stated that at the beginning of each contract year they will develop goals and performance metrics and reach a mutual agreement with the partner.

Management agreed with recommendation 5 to develop a policy for storing key revenue sharing agreement documentation by November 1, 2012. Management added that they established a central repository for storing all contracts signed by the chief marketing and sales officer (or delegates).

For recommendation 6, management agreed to develop and disseminate detailed policies and procedures for approving and monitoring revenue sharing agreements by November 30, 2012.

See Appendix C for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 1, 3, 4, 5, and 6 and corrective actions should resolve the issues identified in the report. Further, we believe the web activity verification process management established is a good step toward addressing recommendation 2 because it will help show the relationship between revenue and web activity levels. However, we continue to believe the Postal Service should develop a more comprehensive process for determining the number of customer registrations and subsequent purchases to validate revenue share. Management stated the revenue levels do not justify the expense of implementing the process in recommendation 2, but they did not provide cost information or establish what revenue level would warrant the process. Management did state they could include in the revenue sharing agreement the appropriate web traffic audit measures, once the partner has surpassed a revenue threshold. While we believe the Postal Service would benefit from a more expansive web verification process, we do not plan to pursue this issue at this time.

Regarding recommendation 3, we disagree with management's assessment of the monetary impact amount. Management agreed there was a revenue loss after the redesign; however, based on subsequent discussions, they believed the impact was $540,236. The Postal Service based their calculation on the average monthly new customer revenue before and after the website redesign. We continue to believe the USPS.com website redesign adversely impacted revenue in the amount of $1.4 million because the Postal Service receives postage and production revenue from each new customer for future sales, not just the initial sale. The $540,236 supplied by the Postal Service does not account for subsequent purchases from these new customers. Therefore, based upon our analysis we continue to maintain that the revenue loss resulting from the website redesign was $1.4 million.

The OIG considers recommendations 1, 3, 4, 5, and 6 significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A: Additional Information

Background

A strategic alliance is a cooperative arrangement between the Postal Service and one or more private entities. Revenue sharing agreements can be a component of strategic alliances. The Postal Service enters into revenue sharing agreements with various partners who are more efficient at providing certain services and products. The agreements are usually made in return for substantive benefits from cooperative efforts. Agreements can contain benefits for both parties. One such benefit is revenue sharing.

Revenue sharing is a process where the Postal Service and its alliance partner share generated revenue. Other benefits, such as goodwill and visibility, can be less tangible. Expenses such as operations, customer service, and marketing and promotion are the primary or sole responsibility of the private sector partner. The Postal Service's role normally includes, at a minimum, branding and ongoing governance, if the service is offered by the Postal Service. The Postal Service may also play a limited operational, marketing, and promotional role.

The Postal Service identified the 14 agreements in Table 1 as revenue sharing.

Table 1. Postal Service Revenue Sharing Agreements[19]

		FY 2011	
	Agreement	**Shared Revenue**	**Other Revenue[20]**
1	Amazon	$0[21]	$0
2	American Greeting (Card Store)	[redacted]	$38,554
3	Click2Mail	[redacted]	$3,809,388
4	Dinero Seguro	[redacted]	
5	Direct Mail Hub	[redacted]	
6	Endicia		$1,318,335,368
7	Global Express Guaranteed®	[redacted]	
8	Imagitas - MoverSource	[redacted]	
9	Imagitas - My Move	[redacted]	
10	Intuit		
11	Label Universe	[redacted][22]	
12	Premium Postcards (Amazing Mail)	[redacted]	$489,378
13	Stamps.com		$646,071,139
14	White Pages	[redacted][23]	

Source: Postal Service revenue sharing agreement representatives, FY 2012.

[19] U.S. Postal Service Office of Inspector General (OIG) auditors reviewed the highlighted agreements in detail.
[20] Other revenue represents postage or incentive revenue.
[21] Postal Service management stated the Amazon program would begin in February 2012.
[22] This amount is for the period July 18 through November 16, 2011.
[23] This amount is for the period August 31 through November 30, 2011.

We selected the Imagitas, Dinero Seguro, Click2Mail, and Endicia agreements for further review. See Table 2 for details of each agreement.

Table 2. Agreement Details

Agreement Name	Program Information	Start Date	Functional Area	How Profit is Shared
Imagitas MoverSource	MoverSource is a family of moving programs that help meet the information, service, and product needs of Postal Service customers.	1995	Domestic Products	Imagitas and the Postal Service share net profit derived from advertising revenue, calculated on a sliding percentage. In addition, the Postal Service shares net profits of an identity verification fee.
Dinero Seguro	Dinero Seguro, also known as Sure Money, offers international wire transfer services to Mexico and other countries.	1996	Global Business	The Postal Service shares the revenue derived from transaction fees and foreign exchange fees with Bancomer Transfer Services.
Click2Mail	Click2Mail is a web-based, self-service data query and selection platform designed to meet the mailing needs of its customers.	2003	Channel Access	Click2Mail pays the Postal Service a commission if a visitor to the Postal Service's website accesses and purchases hybrid mail products from Click2Mail.
Endicia	Endicia provides computer-based postage via a host-based service.	2008	Domestic Products	The Postal Service pays Endicia an incentive fee to acquire shipping customers and increase the sales of qualified products.[24]

Source: OIG auditors.

Objective, Scope, and Methodology

The overall objective of our audit was to determine the efficiency and effectiveness of select revenue sharing agreements. Specifically, we reviewed Imagitas, Dinero Seguro, Click2Mail, and Endicia agreements to determine whether:

- Postal Service management and alliance partners were complying with revenue sharing agreement reporting controls.
- Revenue share amounts were accurate.

[24] Postage on qualified products, such as Express Mail, Priority Mail, and International Express' and International Priority Mail.

- The relationship between the Postal Service and alliance partners was functioning effectively.

To accomplish our objective we:

- Reviewed the agreements to identify internal controls and agreement requirements.

- Verified revenue sharing controls by interviewing applicable individuals and reviewing support documentation.

- Obtained revenue sharing data reports and reviewed them for accuracy.

- Tested sample transactions for accuracy.

- Interviewed Postal Service Headquarters project managers associated with each agreement and personnel from the law and finance departments.

- Conducted site visits[25] to Imagitas, Endicia, and Click2Mail, in which we:

  - Interviewed management about overall program processes.

  - Reviewed internal controls set forth in the agreement and inquired about any additional controls established.

  - Inquired how the revenue is shared.

  - Reviewed reports generated for the agreements.

  - Reviewed reconciliation documentation.

  - Inquired about their relationship with the Postal Service.

We conducted this performance audit from November 2011 through September 2012 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on July 16, 2012, and included their comments where appropriate.

25 [redacted]

We assessed the reliability of revenue sharing data by judgmentally testing data to support documentation. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit.

Appendix B: Monetary Impacts

Recommendation	Impact Category	Amount
3	Revenue Loss[26]	$1,407,055

We determine monetary impact by obtaining the number of new USPS.com customers who registered with Click2Mail and the amount these customers spent on production and postage on a weekly basis for the 27 weeks prior to the USPS.com redesign in July 2011. We then determined the average number of new customers per week and the average production and postage revenue generated by these new customers prior to the website redesign (see Table 5).[27]

Table 5. Number of Weekly New Users

Prior to Website Redesign	After Website Redesign	Difference
[redacted]	[redacted]	[redacted]

Source: Click2Mail data.

We then calculated the revenue loss for the 371 weekly new users that Click2Mail did not receive from USPS.com for the (1) 40 weeks since the website redesign and (2) the remainder of calendar years 2012 and 2013 (see Table 6).

Table 6. Revenue Loss

	Average Revenue Per User	Revenue Loss for the 40 Weeks Since Website Redesign	Revenue Loss for Remainder of Calendar Years 2012 and 2013[28]	Total
Production Revenue	[redacted]	$31,164	$67,003	$98,167
Postage Revenue	[redacted]	415,520	893,368	1,308,888
Total		**$446,684**	**$960,371**	**$1,407,055**

Source: OIG calculations based on Click2Mail revenue data.

[26] The amount the Postal Service is (or was) entitled to receive but was underpaid or not realized because policies, procedures, agreements, requirements, or good business practices were lacking or not followed. The amount may be recoverable or unrecoverable and may apply to historical events or a future period (in the sense that perceived future losses may be prevented by implementing a recommendation).

[27] Based on Click2Mail data, we determined that, prior to the website redesign, on average, 433 new USPS.com customers were registering with Click2Mail and spending, on average, $21 on producing mailpieces and $28 on postage.

[28] For the remaining 34 weeks in calendar year 2012 and all 52 weeks in calendar year 2013, for a total of 86 weeks.

Appendix C: Management's Comments

NAGISA M. MANABE
CHIEF MARKETING AND SALES OFFICER
EXECUTIVE VICE PRESIDENT

UNITED STATES POSTAL SERVICE

August 21, 2012

Lucine M. Willis
Director, Audit Operations
Office of Inspector General
1735 North Lynn Street
Arlington, VA 22209-20202

SUBJECT: OIG Project Number 12BG009FI000 – Revenue Sharing Agreements

The following includes the recommendations made by the OIG and the corresponding USPS responses.

Recommendation

1. Develop a process to independently verify sales transaction data for completeness and accuracy.

Management Response:

In response to this audit, a process for verifying transactions has been established as of May 2012. Every month, the Program Management Office (PMO) creates a new mailing through each of the affiliate sites, either through an existing account or a new one. The transactional data is then verified in the monthly data feed provided by the affiliate. This data feed, as specified in the agreements, includes all transaction related data.

This process is designed to meet the goal of minimizing the risk of lost revenue while keeping the cost of reviewing transactions in line with that risk. We will also develop processes to provide greater scrutiny on the transaction data of partners who have a material impact on USPS revenue that aligns with Response #6 below.

Recommendation

2. Develop a process to determine what data is available on web traffic visitors and visits from USPS.com website to the Click2Mail website to verify revenue sharing customer registrations and purchases of Postal Service products.

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-5005
WWW.USPS.COM

Management Response:

We currently have a process in place to track the click-through rate from USPS.com to the affiliate sites and report this traffic monthly. In addition the affiliate is required to report monthly the number of click through traffic they receive from USPS.com per the current agreement. We will also begin to track the percentage of traffic originating on USPS.com vs. all other sources to the affiliate site.

As stated in the above response, a requirement to provide an independent audit could be added to the terms of the agreement stating that "once the affiliate has surpassed a revenue threshold, appropriate web traffic audit measures could be taken."

We disagree with the recommendation to verify registrations and purchase beyond the methods currently in place as the revenue levels do not justify the infrastructure and support necessary to take action in response to the results of the data.

Recommendation

3. Develop a process to address business alliance concerns within a mutually agreed upon timeframe to avoid revenue loss.

Management Response:

We will ensure that there is a formal discussion in person or on the phone each quarter, with mutually agreed-upon agenda items with each affiliate where goals, tactics, and concerns are addressed. Discussions will be documented with meeting notes and associated metrics.

Recommendation

4. Communicate goals and develop a process to measure the performance of the revenue sharing agreements, at least annually.

Management Response:

At the beginning of each contract year, the PMO and affiliate will discuss and set mutually agreed-upon goals and develop relevant metrics to measure performance on a monthly basis. The goals and performance will be a discussion point at the subsequent quarterly meetings.

5. Establish and maintain a central repository for all revenue sharing agreement documentation.

Management Response:

The CMSO organization has established a repository where all contracts signed by the CMSO or her delegates will be stored. Revenue sharing agreement contracts will be stored in this repository.

We will develop a policy for the storage of other key documents related to revenue sharing agreements. We will determine whether these documents will be stored centrally or with the program manager, and the retention requirements.

6. Develop detailed policies and procedures for creating, designing, and monitoring revenue sharing agreements and disseminate the new procedures to the entire organization.

Management Response:

We will complete the development of a process for the approval and monitoring of agreements relating to promotional and revenue generating activities. This process will cover revenue sharing agreements. The process will focus on the requirements of the delegation to the CMSO (e.g., cost coverage certified by the Finance Department, and Law department review), and policies for the monitoring of agreements. This process will be communicated to relevant individuals in the CMSO, Finance, and Law departments.

This report as well as management's comments should be exempt from disclosure under the Freedom of Information Act (FOIA). This information should be exempt from disclosure due to its confidential nature as under good business practices it would not be publically disclosed. The information would be of potential benefit to individuals seeking to defraud the postal service.

Nagisa M. Manabe

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cc: Kelly M. Sigmon, Vice-President, Channel Access
Richard Cooper, Chief Counsel, Business Finance
Sally Haring, Manager, Corporate Audit and Response Management
Mary Beth Fluto, Manager, Digital Media
Joseph Nash, Manager, Finance (Marketing and Sales)
Ray Van Iterson, Manager, Marketing Strategy

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KELLY M. SIGMON
VICE PRESIDENT, CHANNEL ACCESS

UNITED STATES POSTAL SERVICE

August 22, 2012

Lucine M. Willis
Director, Audit Operations
Office of Inspector General
1735 North Lynn Street
Arlington, VA 22209-20202

SUBJECT: OIG Project Number 12BG009FI000 – Revenue Sharing Agreements (Supplemental Response)

The following includes the recommendations made by the OIG and the corresponding USPS responses.

Recommendation

1. Develop a process to independently verify sales transaction data for completeness and accuracy.

Management Response:

Management agrees with the recommendation and implemented a process for verifying transactions in May 2012.

Recommendation

2. Develop a process to determine what data is available on web traffic visitors and visits from USPS.com website to the Click2Mail website to verify revenue sharing customer registrations and purchases of Postal Service products.

Management Response:

Management disagrees with this recommendation because we believe the process we have in place is sufficient.

Recommendation

3. Develop a process to address business alliance concerns within a mutually agreed upon timeframe to avoid revenue loss.

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Management Response:

Management agrees and will ensure that there is a formal discussion in person or on the phone each quarter, with mutually agreed-upon agenda items with each affiliate where goals, tactics, and concerns are addressed.

Management agrees that there has been revenue loss however we disagree with the OIG's assessment that the change in the website and the Postal Service's response to Click2Mail's concerns resulted in the magnitude of revenue loss stated. Our analysis shows that on an average, 82% of Click2Mail's revenue is generated by current customers vs. 18% by new users each month.

<u>Recommendation</u>

4. Communicate goals and develop a process to measure the performance of the revenue sharing agreements, at least annually.

Management Response:

Management agrees and will implement the process on October 1, 2012.

5. Establish and maintain a central repository for all revenue sharing agreement documentation.

Management Response:

Management agrees in part. Management has established a central repository where all contracts signed by the CMSO or her delegates will be stored. Revenue sharing agreement contracts will be stored in this digital repository. Management will determine a policy for the storage of other key revenue sharing agreement documentation by November 1, 2012.

6. Develop detailed policies and procedures for creating, designing, and monitoring revenue sharing agreements and disseminate the new procedures to the entire organization.

Management Response:

Management agrees to the development of a process for the approval and monitoring of agreements relating to promotional and revenue generating activities to be developed no later than November 2012.

This report as well as management's comments should be exempt from disclosure under the Freedom of Information Act (FOIA). This information should be exempt from disclosure due to its confidential nature as under good business practices it would not be publically disclosed. The information would be of potential benefit to individuals seeking to defraud the postal service.

Kelly M. Sigmon

Kelly M. Sigmon

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cc: Nagisa M. Manabe, Chief Marketing and Sales Officer
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