



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

U.S. Postal Inspection Service Revenue Investigations

Management Advisory Report

Report Number
HR-MA-16-001

October 6, 2015





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

The Postal Inspection Service conducted and closed revenue investigations in accordance with applicable policies and procedures and was not involved in the Postal Service appeals process for revenue deficiencies.

Background

The primary objective of the U.S. Postal Inspection Service Revenue Investigations Program is investigating revenue loss due to postage shortfalls, improper or fraudulent mailings, and related issues. Customer complaints, anonymous tips, and U.S. Postal Service employees or other investigative agencies provide revenue investigation leads. Postal inspectors determine whether insufficient postage was willful or unintentional; and provide investigative findings of noncriminal cases to the Postal Service for appropriate action.

Prior to the beginning of fiscal year (FY) 2015, revenue investigation cases could be initiated at the Postal Inspection Service division level. The majority of the investigations (76 percent) ended up in administrative versus criminal or civil outcomes. Additionally, mailers sometimes felt inappropriately targeted by these investigations. In FY 2015, the Inspection Service changed its processes for initiating revenue investigations.

This is the second of two reports related to the Postal Service's Undeliverable as Addressed mail strategies. The first report,

Strategies for Reducing Undeliverable as Addressed Mail (MS-MA-15-006) was issued on May 1, 2015. The objective of this second review was to evaluate Postal Inspection Service enforcement efforts over revenue investigations, specifically how revenue investigations are initiated, conducted, closed, and appealed.

What The OIG Found

The Postal Inspection Service conducted and closed revenue investigations in accordance with applicable policies and procedures and was not involved in the Postal Service appeals process for revenue deficiencies.

To enhance the quality of revenue investigations, in FY 2015, the Postal Inspection Service implemented a centralized headquarters-coordinated committee comprised of nine contracted revenue fraud analysts with prior Postal Service and Postal Inspection Service experience to pre-screen all revenue investigative leads. They evaluate the leads for validity, potential revenue loss and to ensure the appropriate use of postal inspectors for potential fraudulent cases and postal service personnel for non-investigative



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

matters. The Postal Inspection Service makes the final decision to conduct an investigation.

The creation of the committee should improve the quality of revenue investigations and appropriately assign referrals. Thereby, reducing the number of Postal Inspection Service investigations.

However, the Postal Inspection Service has an opportunity to further enhance the evaluation of its program by documenting the Postal Service resolution for its revenue investigative cases. We reviewed a statistical sample of 147 closed revenue investigation case files and 62 files (42 percent) did not document the resolution reached by the Postal Service. This occurred because the Postal Service did not always provide the Postal Inspection Service with the final deficiency collected. This pertinent information could assist the Postal Inspection Service with its continuous evaluation of the Revenue Investigations Program.

What The OIG Recommended

We recommended management establish procedures to document the Postal Service's resolution for its investigative cases for continuous evaluation of the Revenue Investigations Program.

To enhance the quality of revenue investigations, in FY 2015



**the Postal
Inspection
Service**

**implemented a centralized
headquarters-coordinated
committee comprised of**

**nine contracted revenue fraud
analysts with prior Postal
Service and Postal Inspection
Service experience**



**to pre-screen all revenue
investigative leads.**


Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

October 6, 2015

MEMORANDUM FOR: GUY J. COTTRELL
CHIEF POSTAL INSPECTOR

E-Signed by Janet Sorensen
VERIFY authenticity with eSign Desktop


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

SUBJECT: Management Advisory Report – U.S. Postal Inspection
Service Revenue Investigations
(Report Number HR-MA-16-001)

This management advisory report presents the results of a review of U.S. Postal Inspection Service Revenue Investigations (Project Number 15RG011HR000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Monique P. Colter, director, Human Resources and Support, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

Table of Contents

Cover	
Highlights.....	1
Background.....	1
What The OIG Found.....	2
What The OIG Recommended	2
Transmittal Letter.....	3
Findings	5
Introduction	5
Summary.....	5
New Process to Initiate Revenue Investigations.....	6
Documenting Recovery of Revenue Loss	7
Recommendation	10
Management’s Comments	10
Evaluation of Management’s Comments	10
Appendices.....	11
Appendix A: Additional Information	12
Background	12
Objective, Scope, and Methodology.....	12
Prior Audit Coverage	13
Appendix B: Postal Inspection Service Revenue Investigation Process.....	14
Appendix C: Revenue Investigations Fraud Types	15
Appendix D: Management’s Comments	16
Contact Information	17

Findings

Introduction

This advisory report presents the results of our review of U.S. Postal Inspection Service Revenue Investigations (Project Number 15RG011HR000). This is the second of two advisory reports related to the U.S. Postal Service's undeliverable as addressed (UAA) mail strategies.¹ The first advisory report was *Strategies for Reducing Undeliverable as Addressed Mail* (Report Number MS-MA-15-006, dated May 1, 2015)². The objective of this second review was to evaluate the Postal Inspection Service's enforcement efforts over revenue investigations. Specifically, we assessed how revenue investigations were initiated, conducted, closed, and appealed. See [Appendix A](#) for additional information about this review.

The primary objective of the U.S. Postal Inspection Service Revenue Investigations Program is investigating revenue loss due to postage shortfalls, improper or fraudulent mailings, and related issues. Customer complaints, anonymous tips, and U.S. Postal Service employees or other investigative agencies provide revenue investigation leads. Postal inspectors determine whether insufficient postage was willful or unintentional and provide investigative findings in noncriminal cases to the Postal Service for appropriate action. See [Appendix B](#) for Postal Inspection Service revenue investigations process.

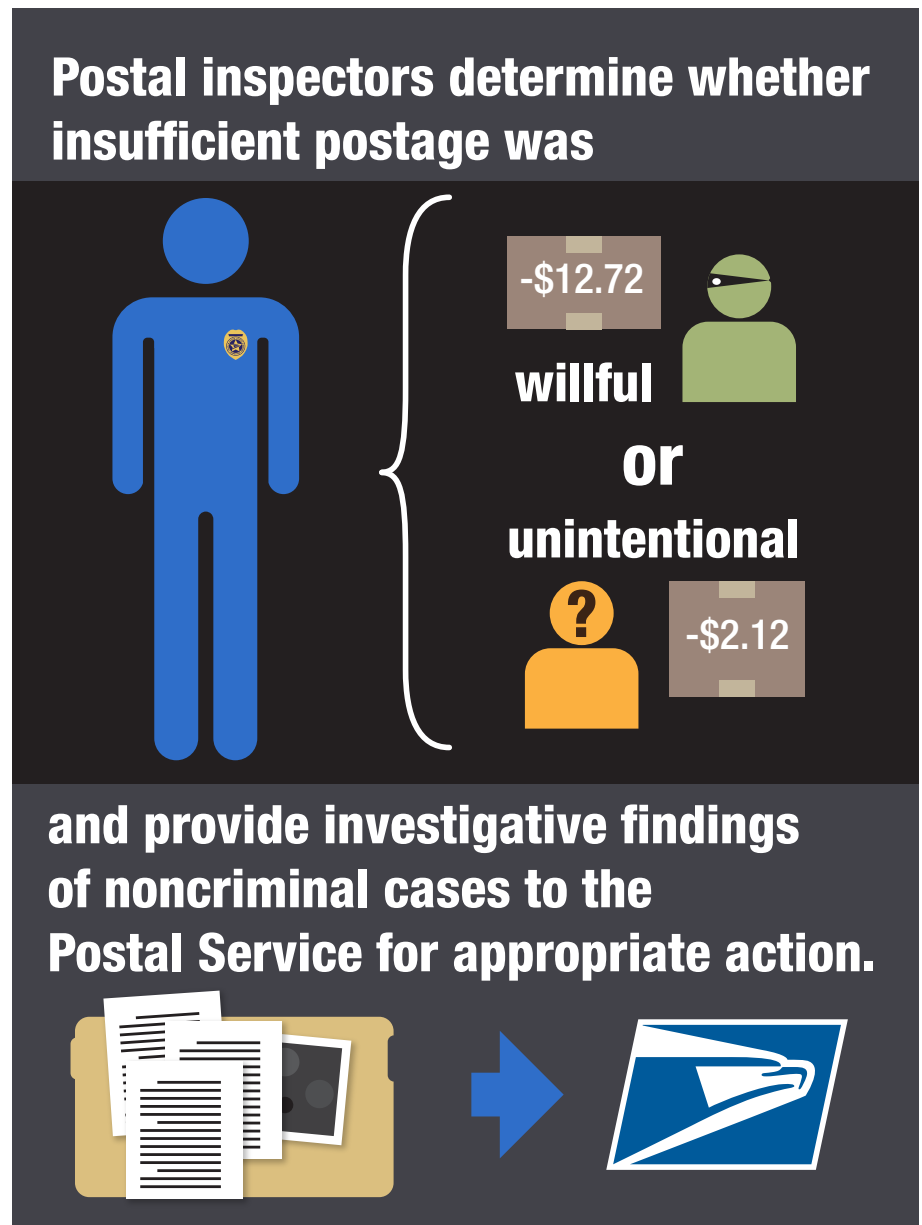
Prior to the beginning of fiscal year (FY) 2015, revenue investigation cases could be initiated at the Postal Inspection Service division level. The majority of the investigations (76 percent) ended up in administrative outcomes rather than criminal or civil outcomes. Additionally, mailers sometimes felt inappropriately targeted by these investigations. In FY 2015, the Inspection Service changed its processes for initiating revenue investigations.

Summary

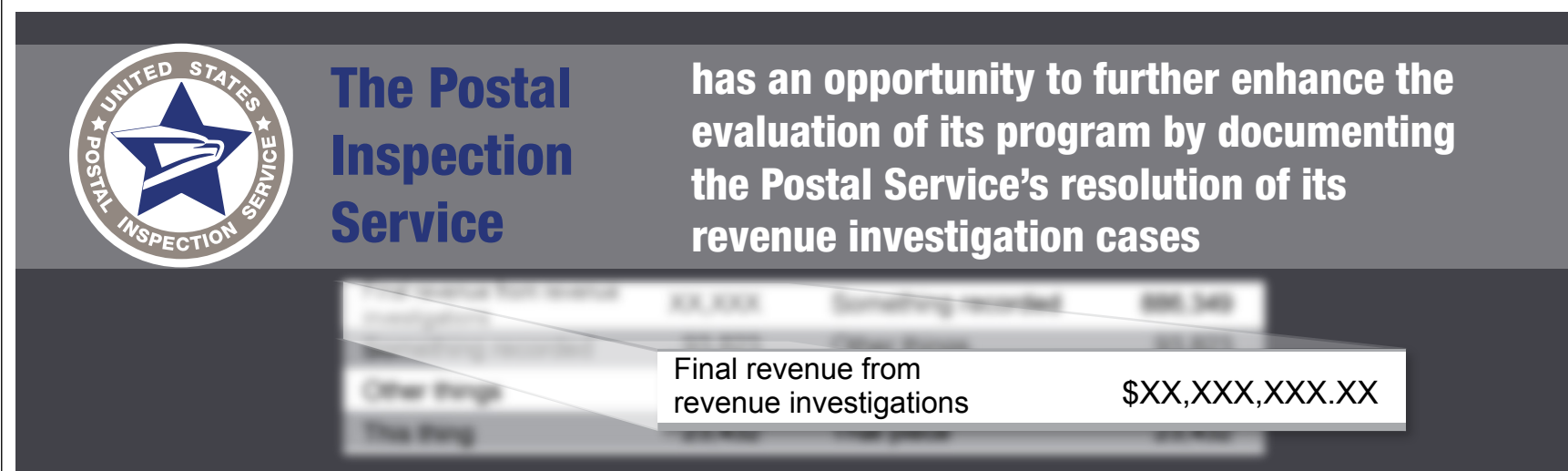
The Postal Inspection Service conducted and closed revenue investigations in accordance with applicable policies and procedures and was not involved in the Postal Service appeals process for revenue deficiencies. To enhance the quality of revenue

¹ This review is conducted as a result of concerns expressed by mailers regarding the U.S. Postal Service Office of Inspector General's (OIG) *Undeliverable as Addressed Mail* report (Report Number MS-AR-14-006, dated July 14, 2014).

² The objective was to evaluate the Postal Service's strategies for reducing UAA mail. As a result, we identified the Postal Service's UAA mail reduction strategies have not been effective.



investigations, in FY 2015, the Postal Inspection Service implemented a centralized headquarters-coordinated committee comprised of nine contracted revenue fraud analysts with prior Postal Service and Postal Inspection Service experience to pre-screen all revenue investigation leads. They evaluate the leads for validity and potential revenue loss and to ensure the appropriate use of postal inspectors for potential fraudulent cases and Postal Service personnel for non-investigative matters. The Postal Inspection Service makes the final decision to conduct an investigation. The creation of the committee should improve the quality of revenue investigations and appropriately assign referrals, thereby reducing the number of Postal Inspection Service investigations.



However, the Postal Inspection Service has an opportunity to further enhance the evaluation of its program by documenting the Postal Service's resolution of its revenue investigation cases. We reviewed a statistical sample of 147 closed revenue investigation case files and 62 files (42 percent) did not document the Postal Service's resolution. This occurred because the Postal Service did not always provide the Postal Inspection Service with the final deficiency collected. This pertinent information could assist the Postal Inspection Service with its continuous evaluation of the Revenue Investigations Program.

New Process to Initiate Revenue Investigations

The newly created committee evaluates all revenue investigation leads for validity and potential revenue loss and to ensure the appropriate use of postal inspectors for potential fraudulent cases and Postal Service personnel for non-investigative matters. The Postal Inspection Service makes the final decision to conduct an investigation.

As of July 29, 2015, the committee referred 504 of 2,638 tips (19 percent) to the Postal Inspection Service for possible investigation, referred 890 tips (34 percent) to the Postal Service for review, and deemed 1,092 tips (41 percent) as requiring no further action. Of the remaining 152 tips (6 percent), 125 were pending and 27 were non-revenue investigation tips referred to the Postal Inspection Service's Security Investigations Service Center and Criminal Investigations Service Center (see [Table 1](#)).

Table 1: Tips Reviewed by the Review Committee As of July 29, 2015³

--

	Review Committee Action	
--	--------------------------------	--

Source: Postal Inspection Service data.

The creation of the committee should improve the quality of revenue investigations and continue to appropriately assign referrals, thereby reducing the number of Postal Inspection Service investigations.

Documenting Recovery of Revenue Loss

The Postal Inspection Service has an opportunity to further enhance the evaluation of its program by documenting the Postal Service’s resolution for its revenue investigative cases. We reviewed a statistical sample of 147 closed revenue investigation case files and 62 files (42 percent) did not document the final deficiency collected.

Specifically, while the Postal Inspection Service documented more than \$43 million in revenue owed to the Postal Service, we identified \$36 million (84 percent) for which the final resolution was not recorded in the case file when it was closed. The total undocumented resolutions are broken down in [Table 2](#) and [Figure 1](#).

³ This period is October 1, 2014 through July 29, 2015.

Table 2: Revenue Investigations

Undocumented Resolutions FY 2012-FY 2014

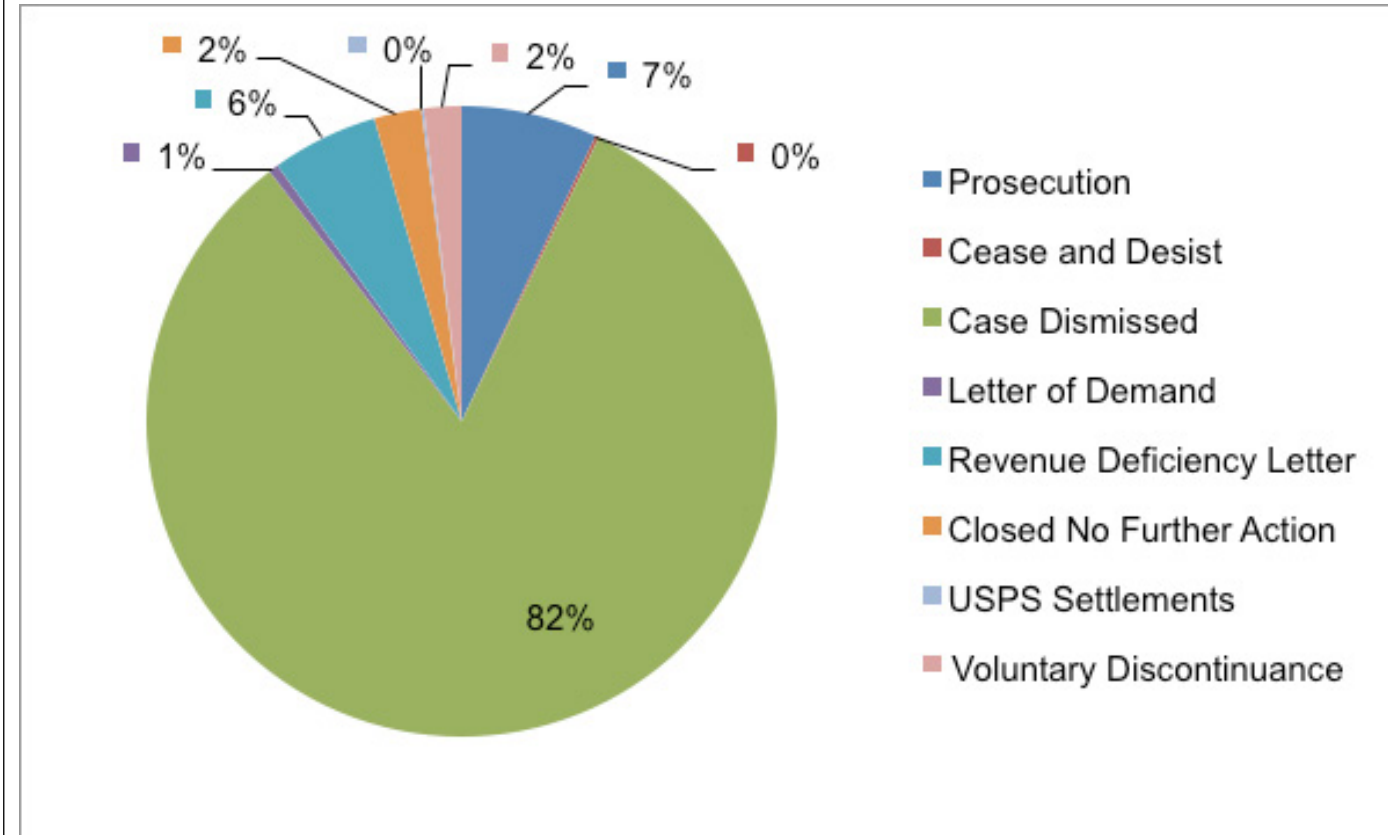
Postal Inspection Service Outcome	Loss Identified by the Postal Inspection Service
Case Dismissed ⁴	\$29,536,379
Prosecution	2,506,161
Revenue Deficiency Letter	2,176,646
Closed, No Further Action	869,271
Voluntary Discontinuance	688,852
Letter of Demand for Payment	181,339
Postal Service Settlements	159,492
Cease and Desist Order ⁵	66,162
Total	\$36,184,302

Source: Postal Inspection Service.

- 4 Of the \$29.5 million, \$27.5 million was for a case involving another government agency getting a discount that it was not entitled to. The Postal Service decided to dismiss the case. The second case for \$1.9 million involved a mailer obtaining incorrect addresses from its vendor; however, there was not enough documented evidence to prove the actions were intended to defraud the Postal Service. The U.S. attorney dismissed the case.
- 5 Postal inspectors may use cease and desist orders to promptly halt any improper use of the mail to shield the public and the Postal Service from potential fraud.

Figure 1: Revenue Investigations

Undocumented Resolutions FY 2012-FY 2014



Source: OIG analysis.

This occurred because the Postal Service did not always provide the Postal Inspection Service with the final deficiency collected. We analyzed internal quality assurance reviews from FYs 2012 through 2014, and the Postal Inspection Service stopped measuring recovered losses in FY 2014 because the case inspector did not control or determine the amount and receipt of losses ordered to be recovered by the Postal Service or the courts. This pertinent information could assist the Postal Inspection Service with its continuous evaluation of the Revenue Investigations Program.

Recommendation

We recommend management establish a process to document the Postal Service resolution for revenue investigative cases for continuous evaluation of the Revenue Investigations program.

We recommend the chief postal inspector:

1. Establish a process to document the Postal Service resolution for revenue investigative cases for continuous evaluation of the Revenue Investigations program.

Management's Comments

Management agreed with the findings and recommendation. Management stated they will develop a process to better document Postal Service resolutions for revenue investigations by January 1, 2016.

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

Evaluation of Management's Comments

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

Appendices

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

Appendix A: Additional Information 12

 Background 12

 Objective, Scope, and Methodology..... 12

 Prior Audit Coverage 13

Appendix B: Postal Inspection Service Revenue
Investigation Process..... 14

Appendix C: Revenue Investigations Fraud Types 15

Appendix D: Management’s Comments 16

Appendix A: Additional Information

Background

The primary objective of the Revenue Investigations Program is to investigate revenue loss due to postage shortfalls, improper or fraudulent mailings, and related issues. Customer complaints, anonymous tips, and Postal Service employees or other investigative agencies can provide revenue investigation leads. Revenue losses are identified in many different ways using various Postal Inspection Service or Postal Service databases and investigative tools. Postal inspectors determine whether insufficient postage was willful or unintentional; and whether they will pursue appropriate criminal, civil, or administrative remedies. Postal inspectors provide investigative findings for noncriminal cases to the Postal Service for appropriate action.

Revenue investigations include many different types of fraud (see [Appendix C](#) for various types of revenue investigation fraud). Revenue loss reflects funds due to the Postal Service for mailing services. Revenue loss is calculated using available evidence, such as mailing statements, mail counts on automated equipment, meter setting records, testimony, and other tests and surveillance. Once an investigation has identified and quantified a revenue loss, the postal inspector must choose a course of action to address the problem and resolve the loss.

Criminal, civil, and administrative remedies are viable options for all revenue fraud investigations. Choosing one option over another usually depends on the amount of loss and the court system where a case presentation is made. Criminal and civil case monetary thresholds are determined by local, state, and federal courts. In the event that a revenue fraud case is not recommended for criminal or civil prosecution, postal inspectors should consider administrative options to stop or resolve the loss.

Objective, Scope, and Methodology

Our objective was to evaluate the Postal Inspection Service's enforcement efforts over revenue investigations to determine whether investigations are conducted effectively and efficiently in accordance to establish policy. Specifically, we assessed how the Postal Inspection Service handled revenue investigation cases and how the cases were initiated, conducted, closed, and appealed.

The scope of this review included revenue investigations for the period FY 2012 to Quarter (Q) 1, FY 2015. To accomplish our objective, we:

- Reviewed applicable policies and procedures for conducting revenue investigations.
- Reviewed prior Postal Inspection Service qualitative assessment reviews.
- Interviewed Postal Inspection Service officials regarding the Revenue Investigation Program and new headquarters-coordinated referral process (implemented October 1, 2014).
- Interviewed Postal Inspection Service personnel regarding how they receive revenue investigation referrals and communicate with mailers.
- Interviewed Postal Service and Postal Inspection Service legal officials to determine their role and responsibility in the revenue investigation process.
- Interviewed Postal Service revenue assurance personnel to evaluate program coordination with the Postal Inspection Service.

- Interviewed Postal Service personnel at the Pricing and Classification Service Center to gain an understanding of the appeal process.
- Assessed procedures for closing investigations.
- Reviewed a statistical sample of 147 FY 2012–FY 2014 closed revenue investigation cases.
- Reviewed the 11 revenue investigation cases initiated during Q1, FY 2015, using the new referral process and procedures.

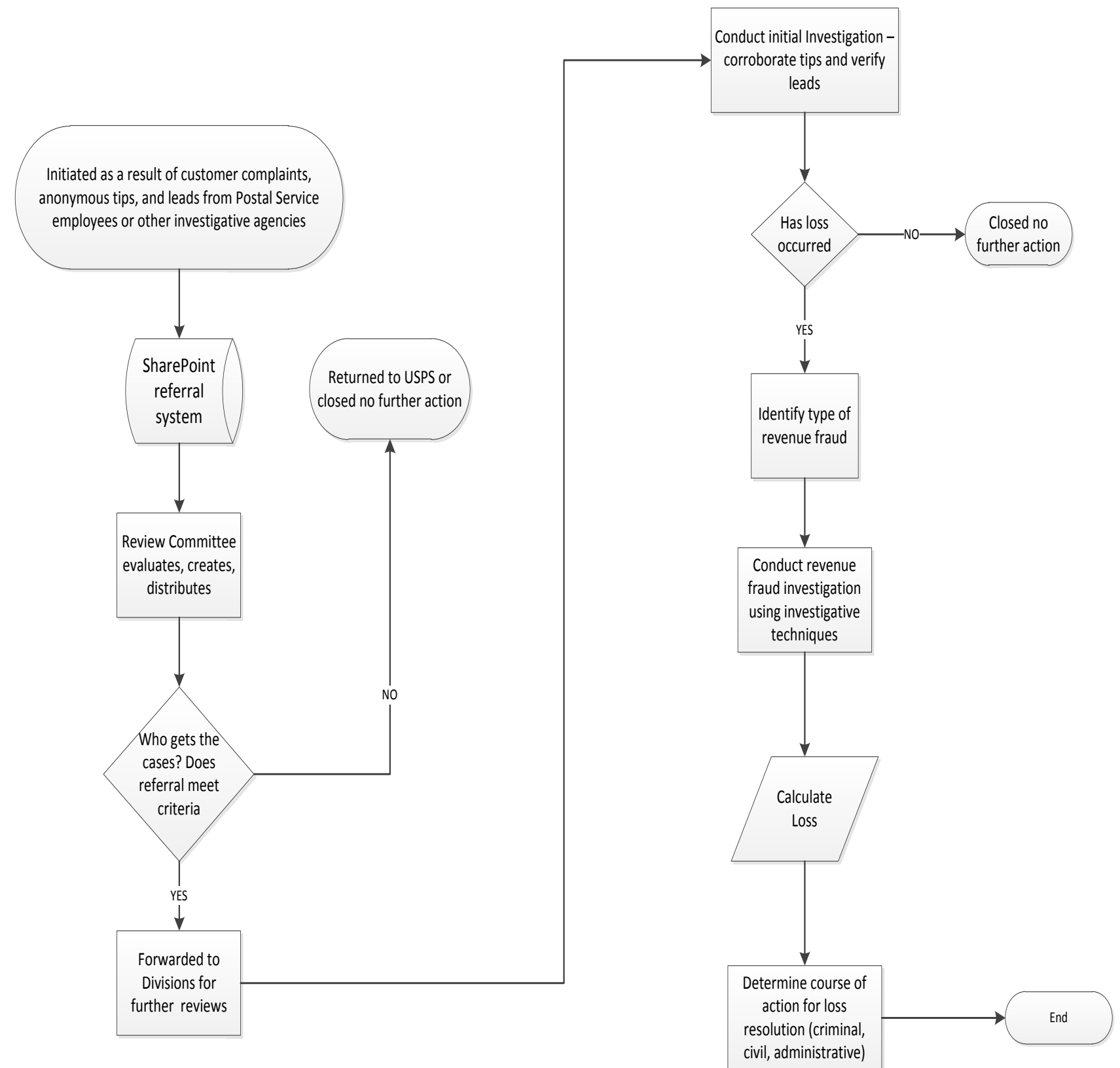
We conducted this review from January through October 2015, in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on September 10, 2015, and included their comments where appropriate.

We assessed the reliability of revenue investigation records by reviewing existing information about the data and the system that produced them and interviewed agency officials knowledgeable about the data. Although we identified some inconsistencies within the case management application, we concluded that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

On May 1, 2015, the OIG issued the *Strategies for Reducing Undeliverable as Addressed Mail* (Report Number [MS-MA-15-006](#)) advisory report and found that the Postal Service's UAA mail reduction strategies have not been effective, as evidenced by a 2.1 percent increase in UAA mail from FY 2011 to FY 2014. The OIG recommended management work with mailers to leverage new technologies to promote compliance with address standards and more accurately attribute actual undeliverable as addressed mail costs. Management agreed with the recommendation and has a target implementation date of December 2016.

Appendix B: Postal Inspection Service Revenue Investigation Process



Appendix C: Revenue Investigations Fraud Types

Postal Inspection Service revenue investigations include many different types of fraud, such as:

1. Permit imprint mail – mailing is entered into the system without being properly verified.
2. Presorted (Discount) mail – mailing does not qualify for the rates claimed. The mailer submitted more mail than claimed or claimed refunds for higher volumes than what was entered in the mailstream.
3. Plant-verified drop shipments – mailer adds mailpieces after the mailing is verified. The mailer states that a container of mail was left out of a shipment and has already been paid for when, in fact, it's additional mail.
4. Eligibility fraud – mailing does not meet requirements for the rate claimed or does not have a valid authorization for preferential rates, such as for Periodicals or nonprofit mail.
5. Bribery, collusion, or employee misconduct – mailer or postal employee colludes with a mailing representative to avoid postage payments.
6. Meters – mailer counterfeits meter indicia or manipulates meters to avoid paying postage.
7. Information-based indicia (IBI) – mailer counterfeits indicia or reuses IBI postage.
8. Retail fraud – mailer uses a fraudulent credit card or a bad check to purchase postal products or services.
9. Stamp counterfeits – mailer uses counterfeit stamps.
10. Customer fraud – third-party mailers charge customers for services not provided, which may give customers the impression that the Postal Service failed to provide the requested service.

Appendix D: Management's Comments



GUY J. COTTRELL
CHIEF POSTAL INSPECTOR

UNITED STATES POSTAL INSPECTION SERVICE

September 22, 2015

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Management Advisory Report – U.S. Postal Inspection Service
Revenue Investigations (HR-MA-15)

Thank you for providing the Postal Inspection Service the opportunity to review and comment on this Management Advisory Report regarding the Revenue Investigations Program. Management agrees with the one recommendation outline in the above referenced Management Advisory.

OIG Recommendation

We recommend the Chief Postal Inspector:

Recommendation 1: Establish a process to document the Postal Service resolution for revenue investigative cases for continuous evaluation of the Revenue Investigations program.

Management Response/Action Plan: Management agrees with the recommendation. The Postal Inspection Service will develop a process to better document Postal Service resolutions for revenue investigations.

Target Implementation Date: January 1, 2016

Responsible Official: Inspector in Charge, Criminal Investigations Group

Guy J. Cottrell
Chief Postal Inspector
Postal Inspection Service

cc: Manager, Corporate Audit Response Management
E-FOIA@uspsoig.gov

475 L'ENFANT PLAZA SW
WASHINGTON, DC 20260-2100
WWW.POSTALINSPECTORS.USPIS.GOV



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

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

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