



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Optimization of Passport Facilities

Audit Report

Report Number
SM-AR-16-001

October 20, 2015

Passport

U.S. Department of State
APPLICATION FOR A US PASSPORT

False statements made knowingly and willfully in passport applications, affidavits or other supporting documents submitted therewith, are punishable by imprisonment under provisions of 18 U.S.C. 1001, 18 U.S.C. 1542 and/or alteration or mutilation of a passport issued pursuant to this act, are punishable by fine and/or imprisonment under the provisions of 18 U.S.C. 1544. Elements are subject to verification.

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Suffix (Jr., Sr., III)



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

The Postal Service has opportunities to optimize its passport acceptance facilities, increase passport program revenue, improve customer service, and strengthen the reliability of the passport facility information on its website.

Background

The U.S. Postal Service accepts passport applications at over 5,000 post offices nationwide on behalf of the U.S. Department of State. The Postal Service agreed to accept passport applications for a minimum of 5 hours per day. There is a \$25 fee for first-time applications and no fee for renewal applications. Some locations offer passport photo services for an additional \$15. In fiscal year (FY) 2014, the Postal Service generated \$129.4 million in revenue from processing about 5.2 million passport applications.

In 2013, the Postal Service initiated a pilot at five passport acceptance facilities, designating them passport centers. The centers, located in the Pacific Area, offered expanded service hours and dedicated staff to facilitate the passport application process. From FY 2013 to FY 2014, the number of passport applications processed at these centers increased by almost 150 percent, and revenue increased by about \$1.2 million. As a result, management plans to increase the number of passport centers nationwide by FY 2016 but has not identified specific facilities.

Our objective was to determine whether opportunities exist for the Postal Service to optimize its passport acceptance facilities.

What the OIG Found

The Postal Service has opportunities to optimize its passport acceptance facilities, increase passport program revenue, improve customer service, and strengthen the reliability of the passport facility information on its website.

We identified 181 facilities that, like the five pilot passport centers, are close to a U.S. border or a shopping center and offer passport photo services. Revenue at these 181 facilities increased by about \$4.4 million, or 34.8 percent, from FY 2012 through FY 2014. Because these passport acceptance facilities are successful and share key attributes with the five centers, the Postal Service could increase revenue by converting them into passport centers.

The Postal Service also has an opportunity to increase revenue from passport photo services. Management did not offer passport photos at some acceptance facilities, stating that this was not a core business function and that the law prohibits the Postal Service from making the passport photo fee market competitive.

Management set a nationwide fee of \$15, which was as much as \$7 (or 47 percent) higher than competitors' fees. Based on



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our analysis, neither the Code of Federal Regulations nor the U.S. Code prohibits a price restructuring of passport photo fees. We estimated the Postal Service could have generated an additional \$19.1 million if customers purchased a photo for at least 48.1 percent of every passport application submitted in FY 2014. The Postal Service could further maximize its revenue by making the fee more competitive.

The Postal Service can also improve customer service at its passport acceptance facilities. In FY 2014, its Customer Care Centers received 237 complaints related to the passport program, of which 149 (63 percent) pertained to customer service. These complaints occurred because acceptance facilities do not have dedicated staff to provide passport services.

Lastly, the Postal Service's website did not accurately specify which post offices accepted passport applications because

the Postal Service did not always certify passport facilities data. If the Postal Service does not improve the reliability of information on its website, customers may experience delays and frustrations, leading them to seek other passport service providers.

What the OIG Recommended

We recommended management evaluate expanding the passport acceptance center pilot program nationwide, establish photo services at all acceptance facilities, and re-evaluate and update the fee charged for passport photos.

We also recommended management educate employees about the importance of passport acceptance to revenue generation and update facilities' data on the Postal Service's website.

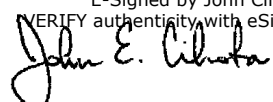
Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

October 20, 2015

MEMORANDUM FOR: KELLY M. SIGMON
VICE PRESIDENT, RETAIL & CUSTOMER SERVICE
OPERATIONS

E-Signed by John Cihota
VERIFY authenticity with eSign Desktop


FROM: John E. Cihota
Deputy Assistant Inspector General
for Finance and Supply Management

SUBJECT: Audit Report – Optimization of Passport Facilities
(Report Number SM-AR-16-001)

This report presents the results of our audit of the Optimization of Passport Facilities (Project Number 15BG015SM000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Keshia L. Trafton, director, Supply Management and Facilities, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Findings

***In fiscal year (FY) 2014,
the Postal Service
processed about 5.2 million
passport applications.***

Introduction

This report presents the results of our self-initiated audit of the Optimization of Passport Facilities (Project Number 15BG015SM000). Our objective was to determine whether opportunities exist for the U.S. Postal Service to optimize its passport acceptance facilities (PAFs). See [Appendix A](#) for additional information about this audit.

The Postal Service provides certain reimbursable services to other federal agencies under formal agreements. On behalf of the U.S. Department of State's (DOS) Bureau of Consular Affairs, Office of Passport Services, the Postal Service agreed to accept passport applications for a minimum of 5 hours per day at designated post offices nationwide. In addition to post offices, the DOS has designated other entities as passport acceptance agents, including public libraries, clerks of court, and municipal government offices.

PAFs accept passport applications at over 5,000 post offices nationwide, processing first-time applications for \$25. For convenience, some PAFs offer passport photo services for an additional \$15 fee. There is no fee for renewal applications. In fiscal year (FY) 2014, the Postal Service processed about 5.2 million passport applications and realized \$129.4 million in revenue at 5,387 PAFs.

In 2013, the Postal Service initiated a pilot at five PAFs in the Pacific Area, designating them passport centers. These passport centers offered expanded service hours and dedicated staff to facilitate the passport application process. From FY 2013 to FY 2014, the number of passport applications processed at these passport centers increased by 149.5 percent, generating about \$1.2 million in increased revenue.

Summary

The Postal Service has opportunities to optimize its PAFs, increase passport program revenue, improve customer service, and strengthen the reliability of the passport facility information on its website. Specifically it could:

- Operate more passport centers. We identified 181 PAFs that, like the five pilot passport centers, are close to a U.S. border¹ or a shopping center and offer passport photo services. These facilities showed increased revenue of about \$4.4 million, or 34.8 percent, from FY 2012 through FY 2014. Because these passport acceptance facilities are successful and share key attributes with the five centers, the Postal Service could increase revenue by converting them into passport centers.
- Increase revenue for passport photos. In FY 2014, 435 PAFs did not offer passport photo services, and the 235 that offered passport photo services did not process photos. Further, the passport photo fee was not competitive. Management stated that they did not offer passport photos at all PAFs because it was not a core business function and they are prohibited by law from making the passport photo fee market competitive. They set a nationwide fee of \$15, which was as much as \$7 (or 47 percent) higher than competitors' fees. Based on our analysis, neither the Code of Federal Regulations (CFR) nor the U.S. Code (U.S.C) prohibits a price restructuring of passport photo fees.

We estimated the Postal Service could have generated an additional \$19.1 million if customers purchased a photo for at least 48.1 percent of every passport application submitted in FY 2014. The Postal Service could further maximize its revenue by making the fee more competitive.

¹ We consider a continental U.S. border to include bordering countries and coastlines.

***In FY 2014,
the Postal Service
Customer Care Centers
received 237 complaints
related to the passport
program, of which 149
(63 percent) pertained to
customer service.***

- Improve customer service at PAFs. In FY 2014, the Postal Service Customer Care Centers received 237 complaints related to the passport program, of which 149 (63 percent) pertained to customer service. Specifically, customers complained about the difficulty in making appointments, unprofessionalism, substandard photo quality, and inaccurate website information. These issues occurred because PAFs do not have dedicated staff to provide passport services. Poor customer service could negatively affect the Postal Service's goodwill and brand and result in a loss of passport program revenue.
- Update its website to accurately specify which post offices accept passport applications. USPS.com listed 12 post offices as PAFs although they no longer offered passport services. This occurred because the Postal Service does not always certify passport facilities' data. If the Postal Service does not improve the reliability of information on its website, customers may experience delays and frustrations and choose other passport service providers.

Postal Acceptance Facility Optimization

The Postal Service has opportunities to optimize its passport program. We identified high performing PAFs that are good candidates for the Postal Service to convert into passport centers. We also identified low performing PAFs that the Postal Service should consider discontinuing from the passport program.

High Performing Passport Acceptance Facilities

The Postal Service can convert more PAFs to passport centers. We identified 181 facilities that, like the five pilot passport centers, are close to the U.S. border or a shopping center and offer passport photo services. Revenue for these facilities grew by \$4,424,455, or 34.8 percent, from FY 2012 through FY 2014.

In 2013, the Postal Service initiated a pilot at five PAFs, designating them passport centers. The goal of the passport centers was to provide dedicated staff trained on the passport application process while streamlining costs associated with passport program training and annual certifications.² These passport centers had service windows that exclusively conducted passport transactions and offered expanded service hours that included weekend hours.³

The pilot passport centers, located within 15 miles of the U.S. border, have shown a significant increase in revenue from FY 2013 to FY 2014. Specifically, the number of passport applications they processed increased by almost 150 percent, which generated an additional \$1,242,200 in revenue. See [Table 1](#) for additional details on the passport centers.

² The DOS requires all employees who have been newly assigned to accept passports to have training and all employees that accept passports to have yearly refresher training.

³ The expanded service hours for passport processing were within the normal operating hours for each facility.

Management plans to expand the number of passport centers nationwide by FY 2016, but has not identified specific facilities.

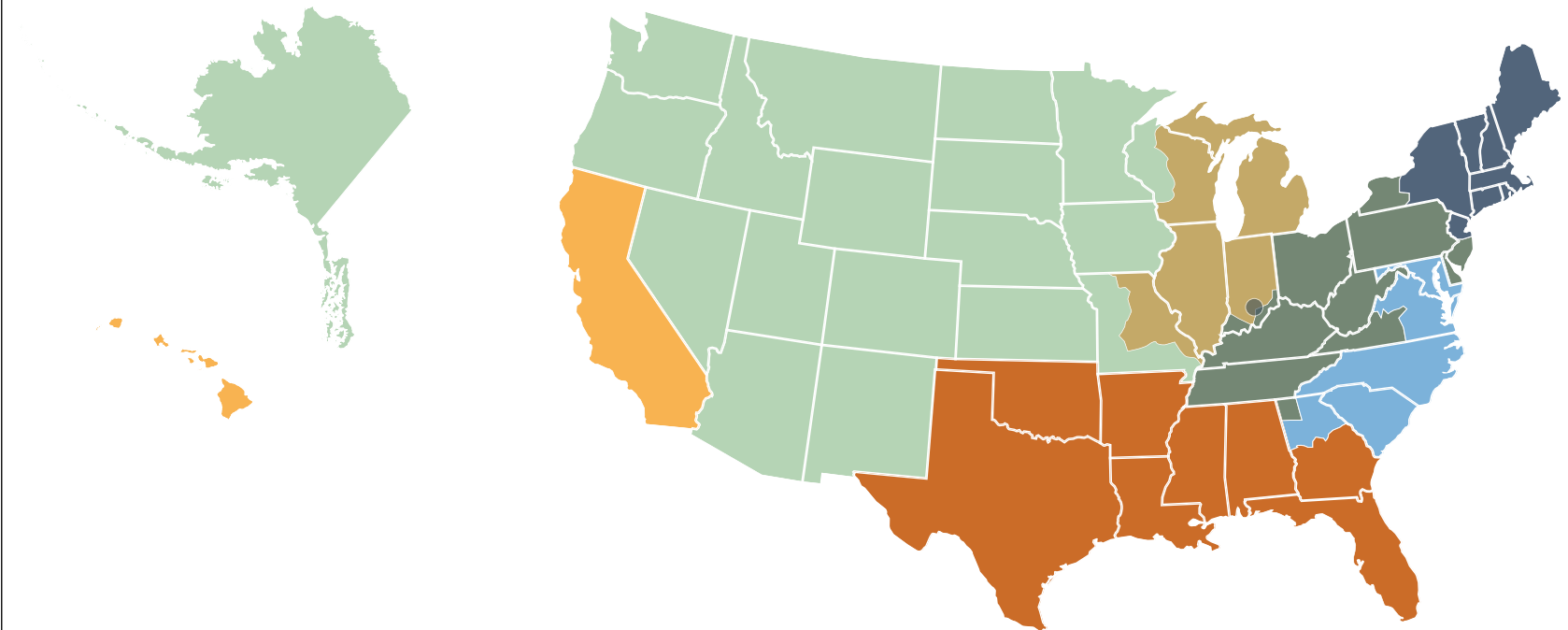
Table 1: Postal Service Passport Centers

Location	Number of Passports Applications			Additional Revenue	
	FY 2014	FY 2013	Change	FY 2014 vs. FY 2013 (@\$25)	Percentage Change
Glendale, CA	13,568	8,948	4,620	\$115,500	51.6%
Goleta, CA*	5,735	0	5,735	\$143,375	100.0%
Santa Clarita, CA ⁴	7,064	0	7,064	\$176,600	100.0%
Oxnard, CA	14,911	7,773	7,138	\$178,450	91.8%
Van Nuys, CA	41,639	16,508	25,131	\$628,275	152.2%
Total	82,917	33,229	49,688	\$1,242,200	149.5%

Source: Postal Service Enterprise Data Warehouse (EDW).⁵

Management plans to expand the number of passport centers nationwide by FY 2016, but has not identified specific facilities. We determined the 181 PAFs that experienced continued passport program revenue growth from FY 2012 through FY 2014 would be good candidates for future passport centers. These PAFs realized revenue of \$17,136,250 for accepting 685,450 passport applications (13 percent) in FY 2014. They were located in each of the Postal Service's seven geographical areas, with the majority — 37 (20 percent) — in the Pacific Area. Figure 1 shows the locations of the 181 PAFs nationwide.

Figure 1. PAFs With Continued Revenue Growth Between FY 2012 - FY 2014



⁴ Goleta, CA and Santa Clara, CA are relocated sites; therefore they have no revenue for FY 2013.

⁵ The EDW provides a single source of data across organizations to a wide variety of users for deeper analysis, which can lead to additional revenue, reduced costs, and improved business practices.

In addition, the 181 facilities, like the five pilot passport centers, are close to a U.S. border or a shopping center and offer passport photo services. See Table 2 for additional details.

Table 2: Shared Attributes of the 181 PAFs and Passport Centers

Attribute	181 PAFs	Passport Centers
Offered photo services	181 (100%)	5 (100%)
Located less than 5 miles from a shopping center	154 (85%)	5 (100%)
Located within 15 miles of a U.S. border	61 (34%)	5 (100%)
Located less than 10 minutes from another PAF	133 (73%)	2 (40%)
Located less than 5 miles from a non-Postal Service PAF	65 (36%)	2 (40%)

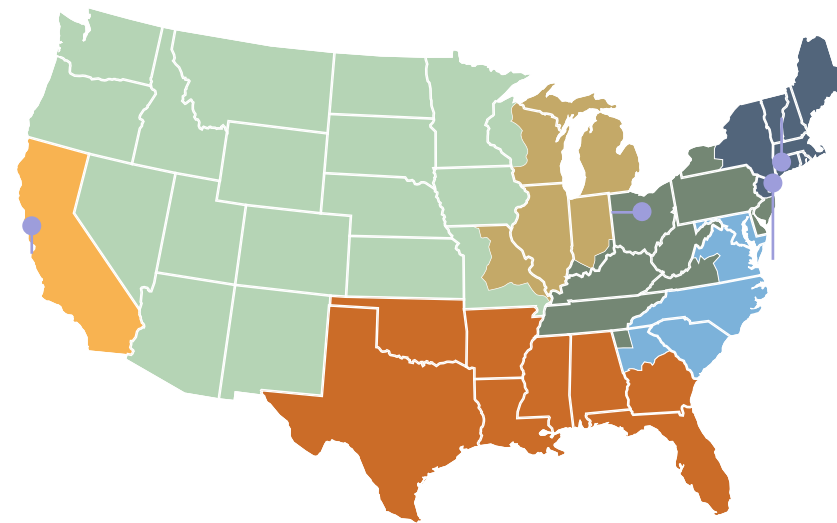
Source: OIG analysis.

Given the success of the passport centers, the Postal Service should examine the 181 PAFs with continued revenue growth for opportunities to convert them to passport centers. By adding dedicated staff and extending the hours to process passport applications, these facilities could realize the same revenue growth as the passport centers.

Low Performing Passport Acceptance Facilities

We identified 2,506 PAFs that experienced a decline in passport revenue for the past 3 fiscal years. Overall, revenue from these PAFs decreased by \$21,393,025 from FY 2012 through FY 2014. Of these PAFs, 392 (16 percent) experienced a revenue decline of about \$6 million and are near other PAFs that experienced increased revenue during the same period. Figure 2 shows examples of four cities,⁶ in the Eastern, Northeast, and Pacific Areas, that had multiple PAFs with declining passport revenues and were located within 10 miles of PAFs with increasing passport revenues. The facilities with declining passport revenue (average growth rates) are indicated in red and those with increased revenue are indicated in green.

Figure 2. Examples of PAF Growth Rates



6 Sherman, CT; New York, NY; Columbus, OH; and San Francisco, CA.

The Postal Service set its photo price higher than its competitors' prices, charging \$15 for passport photos.

Because these 392 facilities realized an overall decline in revenue over the past 3 fiscal years and are located near other PAFs that have experienced an overall revenue increase during the same period, the Postal Service should review each facility, as part of their ongoing evaluation of low performing PAFs, to assess its continued participation in the passport program.

Passport Photo Services

The Postal Service has an opportunity to increase its passport photo revenue. Specifically, 435 PAFs did not offer photo services and another 235 that offered passport photo services did not process any photos. Additionally, the Postal Service set its photo price higher than its competitors' prices, charging \$15 for passport photos while competitors with a nationwide presence charged from \$8 to \$15. Although photo service revenue increased by 1.4 percent, from \$36,847,290 in FY 2013 to \$37,357,845 in FY 2014, the Postal Service could have raised additional revenue by offering these services at all PAFs.

We compared the Postal Service photo fee to five nationwide retailers and found the Postal Service charged as much as \$7 more than its competitors (see the details in Table 3).

Table 3: Nationwide Retailer Passport Photo Prices

Retailer	Nationwide Price for Photo
Walmart	\$7.96
Rite-Aid	\$8.99
CVS	\$11.99
Walgreens	\$12.99
FedEx	\$14.95

Source: OIG analysis.

In a prior OIG audit report,⁷ we recommended management re-evaluate the fee charged for passport photos to determine whether changing it would increase revenue. Management agreed with the recommendation and responded that they would conduct an internal pricing review of photos, including the fee for processing them. However, the Postal Service did not conduct the pricing review, and the price for passport photos has remained the same.

Management stated that the CFR,⁸ which determines the core services of the Postal Service, prohibited them from establishing market competitive prices for passport photos. We determined that neither the CFR nor the U.S.C.⁹ prohibits a price restructuring of passport photo fees. In addition, the Postal Regulatory Commission (PRC) previously held that the Postal Service can sell passport photos as a grandfathered exception to the Postal Accountability and Enhancement Act of 2006, which prohibits the Postal Service offering non-postal services.¹⁰ In that ruling, the PRC held that passport photos are a competitive, non-postal service. The Postal Service acknowledged this by including passport photos in its list of competitive products in the CFR. While changes to passport pricing may require PRC evaluation, Postal Service regulations will not prohibit such changes.

⁷ *Financial Controls Over Passport Applications* (Report Number [FF-AR-11-011](#), dated July 27, 2011).

⁸ 39 C.F.R. §3020 app. A, subpt. A (2014).

⁹ 39 U.S.C. §3633 (2012).

¹⁰ PRC Order No.154, 41-43 (2008).

***Postal Service
Customer Care Center
complaints involved
issues such as difficulty
making appointments,
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quality, and inaccurate
website information.***

Management also stated that passport photos were not a core business function, and field personnel have adopted this business viewpoint. For example, a Postal Service employee complained that his manager instructed him not to take passport photos without a reservation and told him the goal was to terminate passport services at that postal facility. Additionally, we anonymously contacted PAFs with below average numbers of pictures processed¹¹ to determine the cause of the low numbers. Of the 27 PAFs contacted, personnel at five (19 percent) stated they had an inoperable camera and redirected us to lower priced competitors, and two (7 percent) stated they do not perform passport services.

The Postal Service could increase revenue by ensuring all facilities process photos and have functioning equipment. We estimated if at least 48.1 percent of all customers that did not purchase a photo from the Postal Service in FY 2014 had done so when submitting their application, the Postal Service could have earned an additional \$19,109,805 in passport photo revenue. The Postal Service may also increase its market share of passport photo revenue by instituting a more competitive pricing structure. It would need to evaluate what price would generate more photos processed while maximizing revenues.

Passport Acceptance Facilities Customer Service

The Postal Service can improve customer service at its PAFs. In FY 2014, the Postal Service Customer Care Centers received 237 complaints related to the passport program, of which 171 (72 percent) pertained to customer service. These complaints involved issues such as difficulty making appointments, unprofessionalism, substandard photo quality, and inaccurate website information.

Specifically:

- One hundred and sixteen (49 percent) complaints involved customers' inability to secure appointments.
- Forty (17 percent) involved Postal Service employees' unprofessionalism or dissatisfaction with the level of service.
- Nine (4 percent) involved pictures the DOS rejected due to quality.
- Six (3 percent) involved inaccurate data on USPS.com.

These issues occurred because the Postal Service did not have dedicated staff to conduct passport services. In one case, a customer filed a complaint after being denied passport photo services because the customer did not make an appointment in advance. The customer further stated that the PAF was empty and the camera was a few feet away. As a result, the customer went to a competitor for photo services.

In FY 2011, the Postal Service established 36 Delivering Results, Innovation, Value, and Efficiency (DRIVE) initiatives to improve its business strategy. DRIVE Initiative 3 – Transform Access – focuses on enhancing the customer experience, maximizing access to retail products, ensuring the Postal Service remains a trusted American institution, and maximizing revenue at retail outlets. One of the objectives of DRIVE 3 is to deliver an excellent customer experience while reducing the cost to serve and incrementally improving revenue with new products and services.

¹¹ The average percentage of pictures processed to the total number of passports processed was 48.1 percent.

***The Postal Service did not
always certify its facilities’
data for accuracy in the
FDB in accordance with
Postal Service policy.***

If the Postal Service does not promote passport acceptance at its facilities and strengthen its level of customer service, it could lose revenue and its goodwill and brand could be negatively affected.

Data Integrity

The Postal Service’s website did not accurately specify which post offices accepted passport applications. This resource should allow customers to locate postal facilities offering passport services. USPS.com incorrectly listed 12 of 5,387 post offices as PAFs, although they no longer offered passport services. For example, two of the 12 sites discontinued passport services in 2013 but were still listed as active as of May 17, 2015. Because of this audit, the Facilities Database (FDB) coordinator updated USPS.com information for the 12 PAFs.

The discrepancies occurred because the Postal Service did not always certify its facilities’ data for accuracy in the FDB¹² in accordance with Postal Service policy.¹³ The Postal Service website receives its data from the FDB, and all Postal Service FDB coordinators assigned to facilities are required to review this data at least annually. Additionally, coordinators of facilities that provide retail services must review their data twice a year. When changes to a facility record are required, local FDB coordinators should submit the changes to district-level FDB coordinators. District-level FDB coordinators may make changes at the local level and subsequently submit facility change forms to the passport program manager.

Customers may experience delays and frustration when they rely on inaccurate PAF information on the Postal Service’s website and may take their passport business to other providers, which may result in a loss of Postal Service revenue and negatively affect its goodwill and brand.

¹² The authorized corporate repository for the inventory of Postal Service facilities and the source to which all interested employees and automated systems must refer for facilities or facility-related information.

¹³ Management Instruction AS-872-2007-2, *Facilities Database (FDB) FDB Data Certification*.

Recommendations

We recommend management evaluate expanding the passport center pilot; review low performing facilities; establish photo services with operating equipment at all passport acceptance facilities; re-evaluate passport photo fees; re-evaluate staffing and educate employees; and reiterate to coordinators their responsibilities.

We recommend the vice president, Retail & Customer Service Operations:

1. Evaluate expanding the passport center pilot to other passport acceptance facilities nationwide.
2. Review the 392 low performing passport acceptance facilities identified in this report to assess their continued participation in the passport program.
3. Establish photo services with operating equipment at all passport acceptance facilities.
4. Re-evaluate and update, as appropriate, passport photo fees to ensure prices are competitive with other passport photo service providers to maximize passport photo revenue.
5. Re-evaluate staffing at all passport acceptance facilities and educate employees about the importance of passport acceptance and photo services to revenue generation.
6. Reiterate to Facilities Database coordinators their responsibility to review and update passport acceptance facility data and implement a policy that requires the local coordinators to review facility information after submission of facility change forms to ensure the timeliness and accuracy of the changes.

Management's Comments

Management agreed with the findings and recommendations 1, 2, 4, 5, and 6; however, they disagreed with recommendation 3 and the monetary impact of \$19,109,805.

Regarding recommendation 1, management stated they currently have 24 passport centers that are active or will be active by October 2015. In addition, they are currently working to develop standard operating procedures, which will incorporate best practices and determine when a passport center should be implemented versus remaining a PAF. The target implementation date is March 31, 2016.

Regarding recommendation 2, management stated at the end of each fiscal year, they review the previous years' revenue to identify opportunities to optimize the Passport Acceptance Program. At that time, low performing sites are reviewed to determine whether the sites should be removed from the program. However, some low volume facilities would not be removed if it would require the customer to travel long distances. The Postal Service has reduced the number of sites in FY 2015 by 243. The target implementation date is January 31, 2016 to evaluate its annual optimization of the program.

Regarding recommendation 3, management stated they believed establishing photo services at all passport acceptance facilities should be a local decision based on local circumstances. Management indicated not all PAFs have the space to provide passport photo service or the demand to justify the expense to the system. In subsequent correspondence, management also disagreed with the monetary impact stating that, based on an analysis of photo sales, passport photo revenue has increased 1.5 percent per year since 2007. Management further stated that in FY 2015, such revenue was 2.1 percent over the same period last year, which equates to \$3.5 million. Therefore, management believes 2 percent is a more realistic growth rate, which would make the monetary impact \$3.5 million.

Regarding recommendation 4, management stated the Postal Service currently provides passport photos to promote “one stop shopping” and customer convenience. They further stated customers have many options to purchase passport photos and even have the option to bring their own photo when applying for a passport. In subsequent communication, management stated that they plan to perform an analysis of the pricing structure for pictures. The target implementation date for the Postal Service to re-evaluate and update passport photo fees is March 31, 2016.

Regarding recommendation 5, management stated Postal Service Headquarters will develop a *Manager’s Guide for the Passport Program* outlining the passport program requirements. Further, additional messaging will be done through *Retail Digest* articles to keep the field informed on policy changes to passport acceptance and best practices to improve the customer experience. The target implementation date is March 31, 2016.

Regarding recommendation 6, management stated they will reissue the current standard operating procedure in place for passport changes in FDB. Management recognized the need to improve the website information on USPS.com and stated they already implemented a number of changes in June 2015. The changes included providing customers with the facility phone number when searching for a passport site that processes passports by appointment. The website also provides customers with the DOS phone number and website address if they have additional passport questions. Management stated this change has resulted in decreased calls to the Postal Service Customer Call Center. The target implementation date is January 31, 2016.

See [Appendix B](#) for management’s comments in their entirety.

Evaluation of Management’s Comments

The OIG considers management’s comments responsive to recommendations 1, 2, 4, 5, and 6 and the corrective actions should resolve the issue identified. We consider management’s comments unresponsive to recommendation 3.

Regarding recommendation 3, management cited lack of space and demand to justify the expense as deterrents to establishing photo services at all passport acceptance facilities. However, the total cost to install cameras at all facilities without cameras is \$261,000 in relation to a potential \$19.1 million return on investment. Further, some passport facilities were unable to provide photo services due to inoperable equipment. Therefore, the need for functioning equipment at established passport facilities designated to take photos remains a necessity. We explained and provided our monetary impact analysis to management and made reasonable adjustments based on their feedback during the audit. We also considered startup purchase costs for implementing the recommendation and assert that with functioning equipment at each PAF, the opportunity exists for all PAFs to perform at an average of 48.1 percent, generating a \$19.1 million increase in revenue. Management’s assessment of the monetary impact was based on increased revenue using current facilities to provide photo services. Therefore, we believe our monetary impact calculation, including our approach and methodology is sound. We also continue to believe management should pursue this option for generating additional revenue at its PAFs.

The OIG views the disagreement on recommendation 3 as unresolved; however, we do not plan to pursue it through the formal audit resolution process, and this recommendation will be closed as not implemented upon issuance of this report. The OIG considers recommendation 4 significant and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendation 4 should not be closed in the Postal Service’s follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendices

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Appendix A: Additional Information

Background

The Postal Service provides certain reimbursable services to other federal agencies under formal agreements. On behalf of the DOS, the Postal Service accepts passport applications at thousands of post offices around the country. Passport applications are accepted at either authorized PAFs or DOS passport agencies. Post Office locations that accept passport applications offer the products and services needed for first-time passports. At some locations, passport photo services are available on-site for an additional fee of \$15. In addition to post offices, the DOS designates other entities as passport acceptance agents, including public libraries, clerks of court, and municipal government offices. The DOS establishes passport application acceptance procedures, issuance, and application fees. In FY 2014, the Postal Service processed applications on a walk-in or appointment basis at 5,387 locations nationwide and offered passport photo services for an additional fee of \$15 at 4,588 locations.

The passport program is offered as a convenience to Postal Service customers and to generate revenue. The DOS establishes passport application fees, and the Postal Service and the DOS mutually agree on the acceptance fee that the Postal Service receives for accepting new passport applications. The Postal Service establishes passport photo fees. The current acceptance fee is \$25 and is collected from the customer as part of the total passport fees. There is no fee for renewal applications. In FY 2014, the Postal Service processed about 5.2 million passport applications and realized \$129.4 million in revenue. This was 37 percent of the 14,087,341 applications the DOS received. Additionally, the Postal Service processed about 2.4 million passport photos, generating \$35.8 million in revenue.

The number and location of postal facilities that accept passport applications is determined through a collaborative effort between the DOS and the Postal Service. DOS Headquarters and its Regional Passport Agency offices determine the areas (city, county, or state) where the public needs additional service. Although Regional Passport Agency offices generally initiate requests for new passport acceptance sites, the Postal Service may also initiate such requests. In managing the passport program, the Postal Service coordinates with the DOS to establish sites and, when necessary, discontinue sites; provide Postal Service management and oversight; and coordinate training. Demand for services, operational capability, service issues, and revenue are all factors the Postal Service considers when selecting a postal facility to become a passport acceptance agent.

In April 2013, a Postal Service retail official contacted the OIG for assistance involving the DOS and its acceptance facilities. The OIG has provided multiple geographic information system demos and maps to the DOS regarding its PAF activities, including the volume of passport processing transactions per facility. DOS officials discussed the possibility of developing a product that provides optimization and opportunity for DOS's acceptance facilities. The Postal Service also met with the OIG to discuss rightsizing Postal Service PAFs.

Objective, Scope, and Methodology

Our objective was to determine whether opportunities exist for the Postal Service to optimize its passport program. The scope of this audit is passport facilities in FY 2014.

To accomplish our objective we:

- Reviewed applicable regulations, manuals, instructions, and policies and procedures related to the passport program.
- Interviewed DOS and Postal Service personnel to identify goals and processes for the passport acceptance program and get their ideas for optimization.

- Determined whether there is opportunity for the Postal Service to capture revenue from non-Postal Service acceptance facilities by:
 - Obtaining a list of DOS-approved passport application acceptance locations, including Postal Service and other acceptance facilities.
 - Mapping the facilities and identifying non-Postal Service acceptance facilities within a pre-determined radius of post offices but where post offices did not process passports.
- Identified potential additional revenue from passport picture processing.
- Determined the number of applications processed and revenue generated within a specific demographic area.
- Reviewed the hotline and Customer Care Center call reports for issues related to the passport program.

We conducted this performance audit from April through October 2015, 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 September 1, 2015, and included their comments where appropriate.

We assessed the reliability of Postal Service FDB data by comparing it to the data retrieved from the Enterprise Data Warehouse and the DOS website. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG issued the *Financial Controls Over Passport Applications* (Report Number [FF-AR-11-011](#), dated July 27, 2011) report, which examined whether the Postal Service could reconcile passport revenue generated at its acceptance facilities with passport applications submitted to the DOS. The report identified Postal Service opportunities to enhance its financial controls over passport applications and revenue associated with fees collected. Specifically, the report found that Postal Service needed a reconciliation process concerning the collection and financial reporting of application fees collected at acceptance facilities, improved controls over passport photo fees, and a re-evaluation of those fees. The OIG considered the \$46 million in fees for FY 2010 as revenue at risk.

The OIG recommended that the Postal Service coordinate with the DOS to develop a process for reconciling passport application fees, develop unit level controls to strengthen the collection of passport photo fees, re-evaluate the fee charged for passport photos, and provide units with instructions for disposition of extra photos that are no longer required. Management agreed with three of the four recommendations.

Appendix B: Management's Comments

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VICE PRESIDENT, RETAIL AND CUSTOMER SERVICE OPERATIONS



October 7, 2015

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DIRECTOR, AUDIT OPERATIONS

SUBJECT: Optimization of Passport Facilities
(Report Number SM-AR-15-DRAFT)

In reviewing the report, there are several clarifications that the Postal Service would like to make. In the introduction of the report, the OIG indicates that there isn't a fee for renewal applications. As clarification, the Postal Service does not process the *DS-82 U.S. Passport Renewal Application for Eligible Individuals (By Mail)*. The Postal Service only provides mailing services for customers who are mailing a renewal application to the Department of State (DOS).

In addition to the pilot program of Passport Acceptance Centers in Pacific Area studied in the report. The Postal Service also conducted a pilot program with the Department of State from April 21, 2014 through October 17, 2014, identifying post offices that provided the following attributes: High Revenue, Walk in Service, Photo Services and Extended Hours. These sites were not identified specifically as "Passport Acceptance Centers" however, with the level of service and volume that they provide could be considered as a "Passport Acceptance Center". The purpose of the pilot was to identify and incorporate the best practices of these facilities to share as the Postal Service moved forward with the Passport Acceptance Center concept. A key finding from the pilot determined that it is not necessary for a postal facility to be considered a "Passport Acceptance Center" in order to provide good customer service. Due to local circumstances, the Postal Service can achieve the goal of enhancing the customer service and increasing revenue by incorporating these best practices into the existing operation.

Lastly, the OIG also makes reference that the 5 pilot sites were close to a U.S. border or shopping center. The 5 pilot sites from Sierra Coastal are over 200 miles from the San Diego border to Mexico.

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Recommendations

1. Evaluate expanding the passport center pilot to other passport acceptance facilities nationwide.

Management agrees with findings. Management has already adopted the Passport Acceptance Center. The Postal Service currently has twenty-four (24) Passport Acceptance Centers that are active or will be active the first part of October 2015.

USPS Headquarters is currently working cross-functionally to develop standard operating procedures (SOP) for the Passport Acceptance Center. The SOP will incorporate best practices and determine when a Passport Acceptance Center should be implemented vs. remaining a Passport Acceptance Facility.

Implementation Date: March 2016

Responsible Manager: Manager, Retail Operations

2. Review the 392 low performing passport acceptance facilities identified in this report to assess their continued participation in the passport program.

Management agrees. At the end of each fiscal year, USPS management reviews the previous year's revenue to identify opportunities to optimize the Passport Acceptance program. At that time, low performing sites are reviewed to determine whether the site should be removed from the program. It is important to note that some low volume facilities that serve a rural territory would not be removed if it would require the customer to travel long distances to apply for a passport. The USPS has reduced the number of sites in FY15 YTD by 243 sites.

Implementation Date: January 2016

Responsible Manager: Manager, Retail Operations

3. Establish photo services with operating equipment at all passport acceptance facilities.

Management disagrees with the recommendation. Management believes that this should be a local decision based on local circumstances. Not all passport acceptance facilities have the space to provide passport photo service or the demand to justify the expense of system. Digital Media Systems are available for the offices to order through eBuy2 and stocked in Topeka. Currently, there are 4551 Postal Passport Acceptance sites that provide passport photo services.

Implementation Date: N/A

4. Re-evaluate and update, as appropriate, passport photo fees to ensure prices are competitive with other passport photo service providers to maximize passport photo revenue.

Management agrees with the recommendation. Currently, the Postal Service provides passport photos to promote “one stop shopping” and customer convenience. As highlighted in the report, customers have many options to purchase their passport photo. The customers even have the option to bring their own photo when applying for a passport. The instructions for printing and size specifications are posted on the Department of State web site:

<http://travel.state.gov/content/passports/en/passports/photos/photos.html>

The Department of State also provides a “free photo tool to upload your photo and prepares it for your application”.

Implementation Date: March 2016

Responsible Manager: Manager, Retail Operations

5. Reevaluate staffing at all passport acceptance facilities and educate employees about the importance of passport acceptance and photo services to revenue generation.

Management agrees with the recommendation. USPS Headquarters will develop a Manager's Guide for the Passport Program outlining the passport program requirements. Additional messaging will be done through a Retail Digest Articles to keep the Field informed on the policy procedures for passport acceptance as well as best practices to improve the customer experience.

Implementation Date: March 2016

Responsible Manager: Manager, Retail Operations

6. Reiterate to Facilities Database coordinators their responsibility to review and update passport acceptance facility data and implement a policy that requires the local coordinators to review facility information after submission of facility change forms to ensure the timeliness and accuracy of the changes.

Management agrees to reissue the current Standard Operating Procedure (SOP) in place for passport changes in FDB. USPS Headquarters has a Standard Operating Procedure (SOP) in place for passport changes in FDB that updates FDB/usps.com changes on an as needed basis. USPS Headquarters Program Manager updates the hours of operations/services in FDB.

In addition, the Department of State Annual Certification requires the USPS Passport offices review their facility information in FDB/usps.com and the information matches the Department of State web site information available to the public. The Department of State uses the Annual Certification to update their website information. Changes

made outside of the Annual Certification time frame, requires the Facility Change Form.

USPS Headquarters does recognize the need to improve the website information and a number of changes were implemented in June 2015. This change provided the customer with the facility phone number when searching for a passport site that provides passports by appointment. The update also included a message for the customer advising them for more information they can contact the Department of State by calling 1-877-487-2778 or www.travel.state.gov. This change has reduced the number of phone calls to the Customer Call Center with passport questions. The reference to the Department of State provides the customer with a resource to obtain accurate information, the ability to fill out their passport application using the Department of State website.

Implementation Date: January 2016

Responsible Manager: Manager, Retail Operations



Kelly M. Sigmon

cc: Chief Operating Officer
Manager, Retail Operations
Corporate Audit and Response Management



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