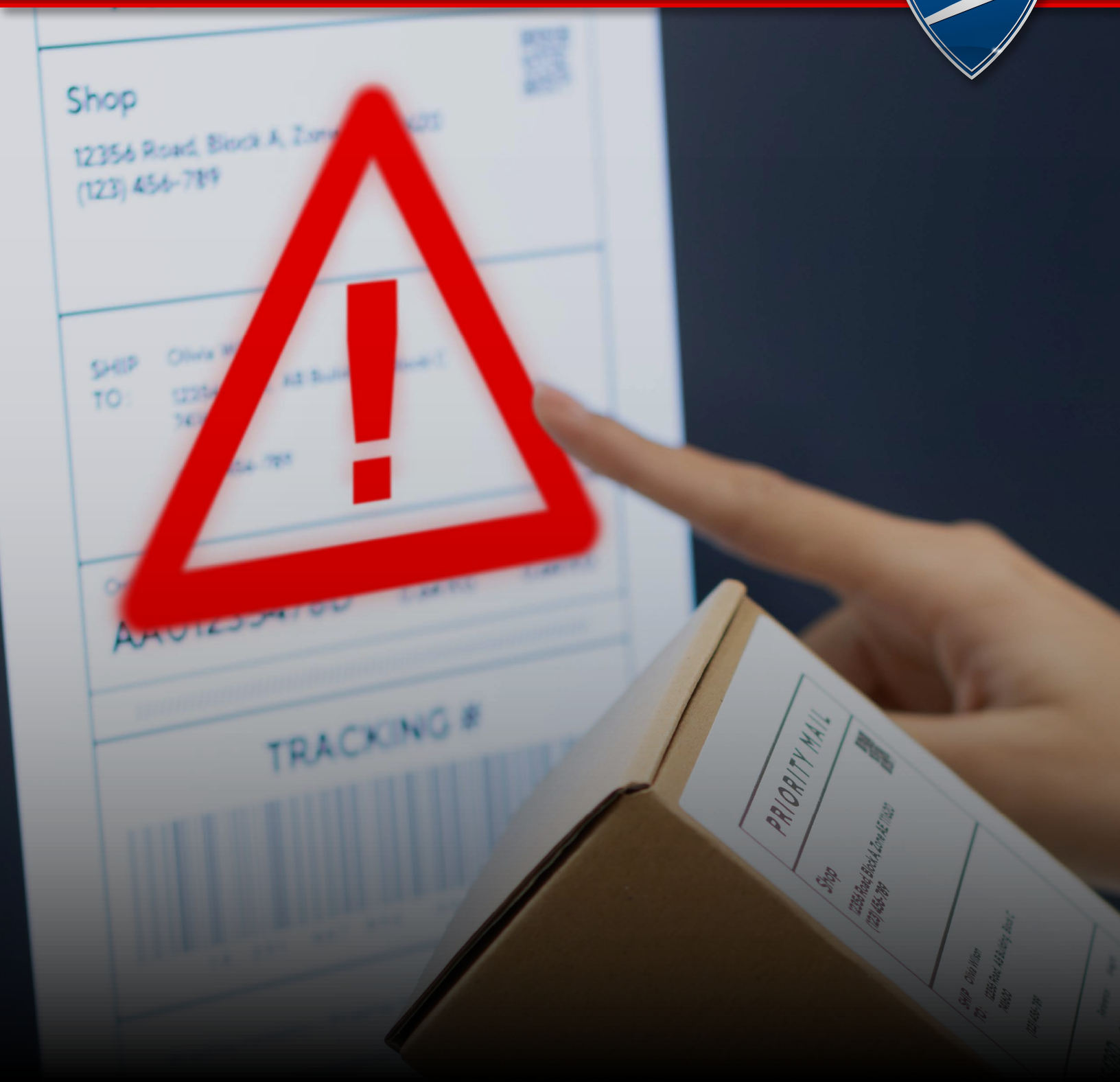
Management Alert: Emerging Counterfeit Label Trend

MANAGEMENT ALERT

Report Number 25-072-3-R26 | April 8, 2026



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Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

April 8, 2026

MEMORANDUM FOR: HEATHER DYER
VICE PRESIDENT,
CHIEF INFORMATION SECURITY OFFICER

Mary K. Lloyd

FROM: Mary Lloyd
Deputy Assistant Inspector General
for Operations, Performance, and Service

SUBJECT: Management Alert: Emerging Counterfeit Label Trend (Report Number 25-072-3-R26)

This management alert presents issues identified during our ongoing audit of the Counterfeit Postage Program (Project Number 25-072). The objective of this management alert is to provide U.S. Postal Service officials immediate notification of an issue identified during our ongoing audit. This issue requires immediate attention and remediation.

All recommendations require U.S. Postal Service Office of Inspector General's (OIG) concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. The recommendation 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.

We appreciate the cooperation and courtesy provided by your staff. If you have questions or need additional information, please contact Laura Roberts, Director, Network Operations Team 2, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management
Chief Information Officer and Executive Vice President

Results

Introduction

This management alert presents issues the U.S. Postal Service Office of Inspector General (OIG) identified during the Counterfeit Postage Program audit (Project Number 25-072). Our objective is to promptly notify the U.S. Postal Service about an identified deficiency in the detection of counterfeit package labels with [redacted] See Appendix A for additional information about this audit.

Background

The Postal Service is a self-funded entity that primarily finances its operations through postage sales, with package delivery comprising a major portion of its services. During fiscal year (FY) 2025, the Postal Service shipped 6.8 billion packages, generating $32.6 billion in revenue. The Postal Service offers both domestic and international shipping services for purchase through multiple channels, including third party vendors, its Click-N-Ship online service, and over the retail counter at local post offices. Foreign postal operators also sell shipping labels for packages that are shipped from other countries and are sent to the United States.

The Postal Service's shipping label for packages contains details such as the type of service, postage payment, delivery address, barcode, and tracking number (see Figure 1). Customers can use the printed tracking number on the package label to track a shipment. Postal Service employees use hand-held and stand-alone equipment to scan barcodes to track and sort packages, and sometimes to verify payment.

Figure 1. Example USPS Barcode and Tracking Number

Source: *USPS Service Parcel Label Guide*, Version 3 Release 5, Issued December 2024.

[redacted] as shown in Figure 2.

Figure 2. Comparison of [redacted] Package Labels

[redacted]

Source: OIG example comparing [redacted] labels for packages.

Since 2020, the U.S. Postal Inspection Service, an investigative agency within the Postal Service, noted there has been a significant increase in the creation, sale, and use of counterfeit postage.[1] According to the Postal Service, the Chief Information Security Office assumed responsibility for preventing counterfeit postage from the Postal Inspection Service in FY 2022.

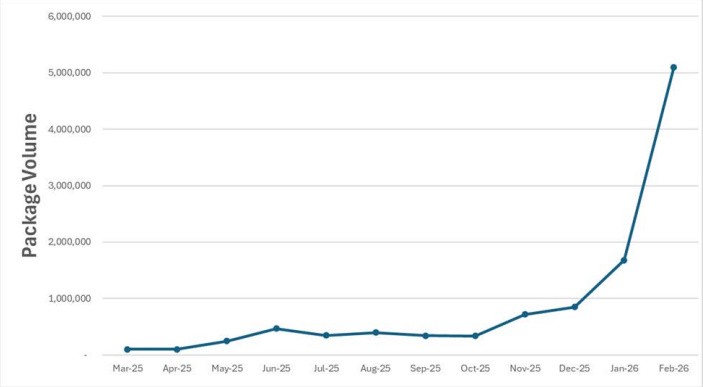
In 2023, the Chief Information Security Office implemented new technology and processes to identify and divert packages with counterfeit postage. One of these is the Counterfeit Package Intercept Process (hereafter "Intercept Process"), [redacted] We previously reported on issues with counterfeit postage, including packages with counterfeit [redacted] and [redacted] In February 2026, the OIG identified a significant increase in the volume of packages with suspected counterfeit labels with [redacted], prompting this third alert.

Finding: Insufficient Controls to Detect Counterfeit Package Labels With [redacted]

The Postal Service did not have sufficient controls in place to detect counterfeit package labels with [redacted] (hereafter "counterfeit [redacted]") once inside the mailstream.

Over the last year, the Postal Service has experienced a significant increase in suspected counterfeit [redacted] used to mail [redacted] without proper payment. In November 2025, the use of packages with unpaid labels with [redacted] doubled from the prior month and has continued to rise. Specifically, between November 1, 2025, and February 28, 2026, we identified an additional 8 million packages with counterfeit [redacted] — an increase of about 609 percent — that passed through the mailstream by the end of February 2026. As shown in Figure 3, most of this increase occurred since January 2026.

Figure 3. Increase in Packages With [redacted] and Unpaid Postage



Source: OIG analysis of Product Tracking & Reporting (PTR) data from March 1, 2025, through February 28, 2026.

To identify these counterfeit labels, we reviewed the Postal Service Product Tracking and Reporting (PTR) data to identify the total number of packages that contained [redacted] and no paid postage from March 1, 2025, through February 28, 2026. Additionally, [redacted] In total, during this period, we found the Postal Service processed over 10.7 million packages with unpaid postage and this type of counterfeit label.

In some instances, [redacted] For example, the counterfeit label in Figure 4 [redacted]

[1] Counterfeit postage is any marking or indicia that has been made, printed, or otherwise created, without authorization from the Postal Service, that is printed, applied, or otherwise affixed on an article placed in the mail that indicates or represents that valid postage has been paid to mail the article.

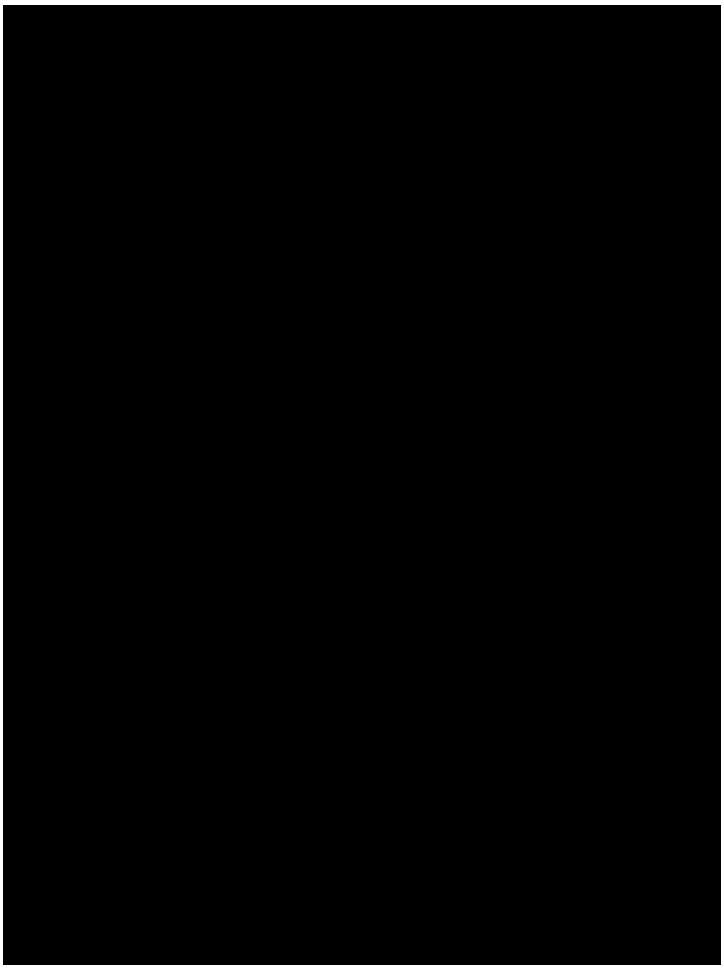
2 *Management Alert – Issues Identified With Counterfeit Postage* (Report Number 25-072-1-R26, dated October 15, 2025); and *Management Alert – Enterprise Payment Account Fraud* (Report Number 25-072-2-R26, dated February 10, 2026).

Figure 4. Example of a Counterfeit

Source: OIG example of a package label

Another type of counterfeit is one that For example, although parts of the label in Figure 5 On this label,

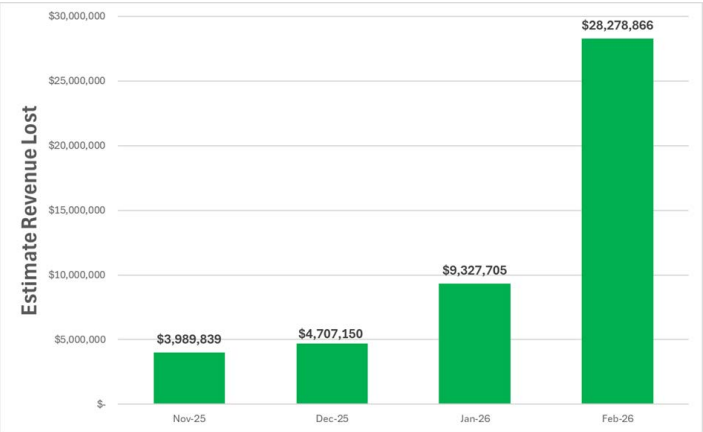
Figure 5. Example of a Counterfeit



Source: OIG photograph taken at the Northern Virginia Processing & Distribution Center in Merrifield, VA, on February 19, 2026.

Postal Service policy requires mailers to make proper payment of postage,[3] and federal law prohibits the use of counterfeit postage.[4] Although the Intercept Process has been in place for three years, the Postal Service has not updated the process to keep up with evolving trends in counterfeit labels. Originally, the Intercept Process was developed to detect counterfeit [redacted]. Postal Service management stated that when designing its initial detection method, it focused [redacted] Without the implementation of further controls, the Intercept Process remains vulnerable to evolving counterfeiting methods, as shown by the rise in the use of counterfeit [redacted]. As a result of the rise of counterfeit [redacted], we estimate the loss of revenue due to unpaid [redacted] to be approximately $46.3 million from November 1, 2025, through February 28, 2026, including a surge of $28.3 million in February 2026 alone (see Figure 6).

Figure 6. Estimated Revenue Loss



Source: OIG analysis of PTR data and FY 2025 Revenue, Pieces, and Weight data from November 1, 2025, through February 28, 2026.

According to the Postal Service, it piloted an update to mail processing equipment to detect and mitigate counterfeit [redacted] in January 2026.[5] However, with the number of suspected counterfeit [redacted] surging, failure to implement controls nationwide in a timely manner will likely result in the expanded use of counterfeit [redacted] and further revenue loss. Without the implementation of timely measures to remedy this issue, the Postal Service could lose an additional $46.3 million in revenue during the next four months.

Recommendation #1:

We recommend that the **Vice President, Chief Information Security Officer**, prioritize enabling detection and interception of counterfeit [redacted].

Postal Service Response

Management disagreed with the finding but agreed with the recommendation and the total monetary impact. See Appendix B for management's official comments in their entirety

Regarding the finding, management disagreed with our conclusion that its ability to detect packages with counterfeit [redacted] is deficient. Management asserted that it had the ability to detect these labels; however, its ability to intercept these packages was limited. Management stated that the initial development of the Intercept Process focused on [redacted]

Regarding the recommendation, management agrees that prioritizing the detection and intercept of counterfeit [redacted] is crucial to protecting Postal Service revenue. Working in coordination with the U.S. Postal Inspection Service, management piloted enhancements to identify fraudulent [redacted], specifically noting that logic was deployed on March 19 that enabled the seizure of over 100,000 fraudulent [redacted] packages. The overall goal of these efforts is to continue to identify and disrupt [redacted]

3 *Domestic Mail Manual*, Section 604.6.1, dated January 28, 2026.
4 Title 18 U.S. Code 501.
5 The Postal Service stated that [redacted] intercepted 211,000 packages at the [redacted] Regional Processing and Distribution Center facility between March 10 and 24, 2026.

fraud volume in conjunction with other efforts targeting different vectors of fraud. The target implementation date is June 30, 2026.

OIG Evaluation

Regarding the finding, the OIG acknowledges that management considered the risk and is working on mitigation efforts. Without timely nationwide implementation, packages bearing counterfeit [redacted] will continue to pass through the mailstream.

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

Appendix A: Additional Information

Scope and Methodology

The scope of this management alert focused on the Postal Service Counterfeit Package Intercept Process and counterfeit labels with [redacted]. To accomplish our objective, we:

- Reviewed PTR data from March 1, 2025, through February 28, 2026, to identify the total number of packages with unpaid postage labels with [redacted].
- Inspected package labels at the Northern Virginia Processing and Distribution Center on February 19, 2026, to identify packages with counterfeit [redacted].
- Interviewed Postal Service Headquarters management to gain an understanding of the Intercept Process and the internal control environment regarding the detection of counterfeit package labels.
- Conducted analysis of PTR data to identify the volume and revenue loss associated with counterfeit [redacted].

We conducted this performance audit from February through April 2026 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.

On March 6, 2026, we notified management of the identified issue prior to our issuance of a draft of this management alert. We discussed our observations and conclusions with management on March 24, 2026, and included its comments where appropriate.

In planning and conducting the audit, we obtained an understanding of the Counterfeit Package Intercept Process internal control structure to help determine the nature, timing, and extent of our audit procedures. We reviewed the management controls for overseeing the process and mitigating associated risks. Additionally, we assessed the internal control components and underlying principles, and we determined that the control activity component is significant to our audit objective.

We developed audit work to ensure that we assessed this control. Based on the work performed, we identified internal control deficiencies related to control activities that were significant within the context of our objectives. Our recommendation, if implemented, should correct the weaknesses we identified.

We assessed the reliability of PTR data by performing testing for completeness, reasonableness, accuracy, and validity. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
Management Alert: Enterprise Payment Account Fraud	To provide immediate notification of issues related to an identified deficiency in the prevention of Enterprise Payment Account (EPA) fraud.	25-072-2-R26	February 10, 2026	$1.8 billion
Management Alert – Issues Identified with Counterfeit Postage	To provide immediate notification of issues related to an identified deficiency in the detection of counterfeit [redacted].	25-072-1-R26	October 15, 2025	$485.9 million

Additional information or recommendations regarding the issues addressed in this Management Alert may also be included in the final report resulting from our related ongoing audit.

Appendix B: Management's Comments

UNITED STATES POSTAL SERVICE

Date: April 3, 2026

Laura Lozon
Director, Audit Services

SUBJECT: Management Response: *Management Alert – Counterfeit Labels With* [redacted] *(25-072-3-DRAFT)*

Thank you for providing the Postal Service with an opportunity to review and comment on the findings and recommendations contained in the draft audit report, Management Alert – Counterfeit Labels With [redacted] (25-072-3-Draft)

Finding: Insufficient Controls to Detect Counterfeit Package Labels with [redacted]

Management Response: Management disagrees with the finding that there are "Insufficient Controls to Detect Counterfeit Package Labels with [redacted] For over a year, CISO has considered and/or reported estimates of [redacted] label fraud in the USPS network. Since its month-over-month increase beginning approx. Nov. 2025, the FAM team has communicated through multiple channels the potential vector shift. To restate, there is no deficiency in the ability to detect, but rather challenges limitations today to intervene.

It is paramount that context and evolution remain in focus when evaluating the scope of the package fraud prevention effort. Earliest iterations of the "Intercept Process" did not take into consideration [redacted] constructs as the scope remained exclusively on [redacted] volumes. [redacted] was not addressed due to, but not limited to, the following:

- Minimize disruption of "good" packages and customers that are supported by the network
- [redacted] follow different payment rules [redacted]
- [redacted] require collaboration with [redacted]

As the OIG states, priority was placed on largest impacted vectors which widely consisted of, at the time, [redacted] That said, CISO in collaboration with other teams have been acting on [redacted] volumes since December 2025 as discussed in CISO's agreement with Recommendation 1 below.

Recommendation 1: We recommend that the **Vice President, Chief Information Security Officer**, prioritize enabling detection and interception of counterfeit [redacted].

Management Response/Action Plan: Management agrees that prioritizing the detection and intercept of counterfeit [redacted] is crucial to protecting USPS revenue. The CISO team, along with the United States Postal Inspection Service (USPIS), have been working on mitigation efforts since August 2025. Between October and January, USPIS was developing and testing a fraud identification program on the [redacted] machine in [redacted]. Leveraging their analysis and assistance from the CTO team, they completed initial tests in January and seized 16k pieces. They enhanced the system in February. In March testing, they seized almost 211k pieces between Mar 10 – 24.

During this time, the FAM team was developing logic to identify fraudulent [redacted] for intercept while protecting good labels. First the team worked with USPS Ship to enhance the [redacted]. The [redacted] enhancement was deployed on January 22, 2026. Second, the team worked with USPIS, the [redacted] team, [redacted], and consulted the [redacted] to ensure the intercept logic adheres to all rules and regulations. The FAM team deployed this logic on March 19th and have thus far seized 100k+ fraudulent [redacted] packages.

The CISO FAM team and the USPIS have already noticed a sharp decline in fraudulent [redacted] packages in the mail stream. The overall goal of both efforts is to continue to identify and disrupt [redacted] fraud volume in conjunction with other efforts targeting different vectors of fraud. By mitigating each vector in parallel and continuously, we will bring the rate of fraud within each vector down and the overall fraud rate down.

Target Implementation Date: June 30, 2026.

Responsible Official: **Vice President, Chief Information Security Officer**, in coordination with the **Chief Postal Inspector**.

Monetary Loss: The OIG states that the amount of unrecoverable revenue since November 2025 is $46.3M. They project that this rate will continue over the next four months. Total revenue lost is estimated at $92.6M

Management Response/Action Plan: The VP, CISO agrees with the impact estimates detailed in the latest OIG management alert.

E-SIGNED by HEATHER.L DYER
on 2026-04-03 16:01:27 EDT

Heather Dyer
VP, Chief Information Security Officer.

cc: *Corporate Audit & Response Management*

Contact us via our Hotline and FOIA forms. Follow us on social networks. Stay informed.

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

For media inquiries, please email press@uspsoig.gov or call (703) 248-2100

This document contains sensitive information that has been redacted for public release. These redactions were coordinated with USPS and agreed to by the OIG.