



General Government Division

B-256737

September 26, 1996

The Honorable David Pryor
Ranking Minority Member
Subcommittee on Post Office
and Civil Service
United States Senate

Dear Senator Pryor:

As you requested, this letter provides follow-up information on actions under way or planned by the Postal Service on weaknesses discussed in our 1994 report on the metered mail program.¹ We reported in 1994 that metered mail was the largest single source of revenue for the Postal Service. In fiscal year 1995, it was still the largest source, accounting for about \$20 billion (38 percent) of postal revenue. We also reported that certain mailers had taken advantage of weaknesses in the Postal Service metered mail program to avoid paying millions of dollars in postage fees. Revenue losses stemmed from criminal tampering with postage meters, counterfeiting of meter indicia (the imprint on metered mail indicating prepayment of postage), and criminal use of lost or stolen meters to produce meter indicia for which postage was not paid. Although Postal Service officials said they did not have the data necessary to accurately determine the total loss from meter fraud, they estimated in 1993 that losses from meter fraud could be as high as \$100 million annually.

In our 1994 report, we described a situation in which weaknesses in meter design and ineffective program controls had opened the door to postage meter fraud. We also noted that the responsible program office was inadequately staffed and that the Postal Service's top management had been slow to respond to the need for corrective actions, due in part to a reluctance to tighten controls over meters and metered mail at the perceived cost of hurting customer service. In addition, we reported that Postal Service officials had said that the metered-mail fraud issue lacked urgency in view of the few documented cases of such fraud involving

¹Postage Meters: Risk of Significant Financial Loss But Controls Are Being Strengthened (GAO/GGD-94-148, May 26, 1994).

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significant losses. Finally, we observed that the Postal Service, in its meter testing program, had traditionally emphasized durability over security, and that this had led manufacturers to adopt the same emphasis.

We further reported that the Postal Service had begun to modify the metered mail program, which included the use by mailers of about 750,000 mechanical meters. Our 1994 report pinpointed control weaknesses and discussed related initiatives that the Postal Service was either planning or implementing to improve postage meter security.

We recently assessed the current status of the Postal Service initiatives to improve controls over postage meters by (1) interviewing Postal Service officials at headquarters in Washington, D.C., and in Philadelphia, PA, and (2) reviewing pertinent Postal Service and Federal Register documents. We conducted our follow-up work from August 1996 through September 1996 in accordance with generally accepted government auditing standards.

ACTIONS TO IMPROVE INADEQUATE CONTROLS
OVER POSTAGE METERS IDENTIFIED IN OUR 1994 REPORT

According to Postal Service officials, they are making substantial progress in addressing the issues raised in our 1994 report on postage meter controls. Some of the key actions under way and planned are highlighted below.

In the 1994 report, we noted that meter tampering is typically accomplished by circumventing the key lock, lead seal, and other mechanisms designed to prevent the manipulation of a meter's internal mechanisms for the purpose of printing unrecorded "free" postage. We further stated that the Postal Service had determined that mechanical meters were more susceptible to indiscernible tampering than electronic meters, that the "R-line" series of postage meters was particularly vulnerable to tampering, and that "R-line" meters were involved in four of the five largest meter fraud-cases the Postal Inspection Service had closed since 1985.

According to the "Postal Service Comprehensive Statement on Postal Operations 1995," the "R-line" meters were decertified for commercial use effective January 1995. Postal officials recently said that, as of July 1996, all of the "R-line" postage meters had been removed from the market. The officials also said that the Postal Service had decertified all existing mechanical meters and banned the addition of any new mechanical meters as of June 1, 1996. These meters are to be replaced with electronic meters that are less vulnerable to fraudulent use by physical tampering. The Postal Service also plans to phase out the 750,000 mechanical meters currently in

use by the year 2000. The first phase-out is to cover the highest risk category--i.e., third-party mailers (operations that prepare mailings for other businesses)--and is scheduled to be completed by March 1997. In a March 1996 memorandum to field offices, the Postal Service Headquarters Manager, Retail Systems and Equipment, stated that decertification of mechanical meters was necessary because of inherent security problems found with all of the mechanical meters.

According to Postal Service officials, in order to further prevent meter tampering, in September 1996, the Postal Service began the process of purchasing polycarbonate meter seals, which are less susceptible to tampering than lead seals.

Our 1994 report stated that meter fraud also included counterfeiting meter marks or indicia. We noted that counterfeiting involved creating a meter mark by means of something other than a legitimate postage meter, including making reproductions of legitimate meter marks or creating a die that could be used in a mailing operation.

To address the counterfeiting threat, the Postal Service is considering adopting an intelligent bar-coded indicia. The officials said the primary purpose of the proposed indicia program is to create a unique digital indicia for each piece of mail. On July 2, 1996, in a Federal Register notice, the Postal Service published two proposed specifications for the new form of postage indicia and postal security devices, and requested comments. Comments are due by September 30, 1996. The Postal Service also held a public meeting on July 19, 1996, to discuss the technical aspects of the specifications and facilitate formal comments from interested companies. According to Postal Service officials, representatives from over 50 firms attended the meeting. One business newsletter noted that the list of attendees at the public meeting showed the diverse interest in the new technology. A follow-on meeting has been scheduled for November 25, 1996, to expand public discussion beyond the technical aspects.

We also reported in 1994 that lost and stolen meters were a threat to the Postal Service because about 83,000 meters were not accounted for and thus were no longer subject to inspection. In August 1996, Postal Service officials said that, since issuance of our 1994 report, the Postal Service had created a database that lists all meters reported by manufacturers as being either lost or stolen. In addition, the officials said that, at the time we conducted our review that resulted in the 1994-report, the Postal Service had only hard copies of meter licenses, which were housed in storage boxes at post offices throughout the country. According to Postal Service officials, they have since incorporated meter licenses into an electronic, centralized national database for all postage meters. The officials said that these systems have not only provided for better management of meters, but also provide the Postal Service with tools for better

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targeting investigations of suspected meter fraud. The Postal Inspection Service is to periodically match a sample of recently used indicia with meters on the lost and stolen list. The officials said the matching process has identified several cases of "lost" meters that were still being used. In its revised regulations on the manufacture, distribution, and use of postage meters, published in the Federal Register on June 9, 1995, the Postal Service listed, in detail, information that now must be reported to the Postal Service by the licensee when a meter is either lost, stolen, or recovered.

In our 1994 report, we stated that the Postal Service's efforts to manage the meter program have been further hindered by a lack of the basic data necessary to identify how much revenue was received for a given volume of mail handled. According to an official of the Postal Inspection Service, the Postal Service is currently working on a system to compare mail volume with mail revenue that is scheduled to be completed by the beginning of fiscal year 1997.

In addition to the actions directed at specific weaknesses identified in our 1994 report, the officials also said that the Postal Service has begun to participate in international efforts to share information on best practices for reducing meter fraud.

One of the issues not yet addressed by postal management is staffing shortages in the meter program office. We will continue to monitor the Postal Service's progress in addressing this issue, as well as meter controls in general, as part of our larger revenue protection effort.

AGENCY COMMENTS

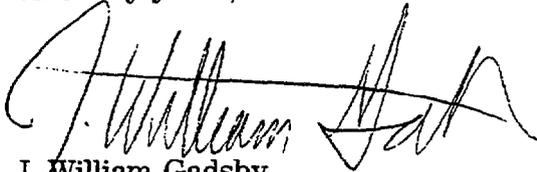
On September 24, 1996, we provided copies of a draft of this letter to the Postal Service's Vice President for Retail and the Manager of Retail Systems and Equipment. On September 25, 1996, we discussed the letter with these officials. They generally concurred with the facts as described in the letter, and suggested some technical corrections that we made where appropriate.

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We are sending copies of this letter to the Chairman, Senate Subcommittee on Post Office and Civil Service; the Chairman and Ranking Minority Member of the House Subcommittee on the Postal Service, Committee on Government Reform and Oversight; and the Postmaster General. We will also make copies available to others on request. If you or your staff have any questions, please contact me on (202) 512-8387.

Sincerely yours,

A handwritten signature in black ink, appearing to read "J. William Gadsby". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

J. William Gadsby
Director, Government
Business Operations Issues

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