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Report to Congressional Requesters

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U.S. POSTAL SERVICE

Improved Oversight Needed to Protect Privacy of Address Changes

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The Honorable John M. McHugh
Chairman, Subcommittee on the Postal Service
Committee on Government Reform and Oversight
House of Representatives

The Honorable Gary A. Condit
House of Representatives

This report responds to your request that we examine the U.S. Postal Service's oversight of the National Change of Address (NCOA) program. The Postal Service's ability to quickly and accurately correct customers' addresses is key to effective mail delivery; however, it has also raised concerns about potential misuse of NCOA data. Our report objectives were to determine (1) how the Postal Service collects, disseminates, and uses NCOA data and (2) whether the Postal Service adequately oversees the release of NCOA data in accordance with privacy provisions of relevant federal laws.

Results in Brief

Through the NCOA program, the Postal Service collects and widely disseminates change-of-address information reported by postal customers. To do this, the Postal Service uses 24 licensees, primarily mail advertising and credit information firms, to provide the address-correction service. The licensees pay the Postal Service to receive and use the electronic master NCOA file and Postal Service-approved computer software that is used for updating mailing lists. The licensees are to use NCOA data and provide address services to other private firms and organizations in accordance with the standards and procedures specified in the licensing agreement.

The Postal Service's oversight of NCOA program licensees and controls over the release of NCOA data have not been adequate to prevent, detect, and correct potential breaches of the licensing agreement and potential violations of federal privacy law in a timely manner. Specifically, we identified weaknesses in the Postal Service's licensee oversight activities for (1) "seeding"[1] NCOA files to detect unauthorized uses of addresses, (2) auditing the performance of software that licensees use to match their mailing lists with NCOA files, (3) reviewing NCOA advertisements that

[1]Seeding is a commonly used practice in the mailing industry to control proprietary information. A "seed" record planted in a file can be used to detect the inappropriate release of a record or file.

licensees propose to use, and (4) investigating complaints about the NCOA program.

Postal Service officials said they believe that neither the Privacy Act nor the Postal Reorganization Act of 1970 limit licensees' use of address data that have been properly updated or corrected through the NCOA service. In our view, use of NCOA-linked data by a licensee to create a new-movers list would not be consistent with the limitations imposed by the Privacy Act. The Postal Service had not explained in the acknowledgment form—to be signed by customers of licensees—that NCOA data are not to be used to create or maintain new-movers lists. Unless the Postal Service implements and attempts to enforce these limitations, it cannot be assured that the use of NCOA-derived data is limited to the purpose for which it was gathered.

Background

Automating mail sorting with state-of-the-art technology is at the core of Postal Service initiatives to provide efficient, economically priced mail service. Mail addressed accurately and in the Postal Service's standardized format is more compatible with these automated processes. However, the Manager of Address Management at Postal Service headquarters said that the single greatest barrier to the Postal Service's effort to automate mail processing is "the poor quality of the address on the mail piece."

Mail addressed incorrectly or inadequately cannot be processed and delivered as quickly and efficiently as properly addressed mail. When mail is misaddressed, the Postal Service incurs added costs for sorting, transporting, delivering, and, in some cases, disposing of that mail. Of the 177 billion pieces of mail the Postal Service handled in 1994, nearly 5 billion pieces were addressed incorrectly. The Postal Service estimated that it incurred a cost of about $1.5 billion a year in compensating for poor address quality. However, the Postal Service had no information on the portion of this cost associated with a change of address.

Because accurate addressing is essential for efficient mail service, the Postal Service and its predecessor, the Post Office Department, have provided address-correction services since 1924. These services, among other things, assist mailers in obtaining and using accurate, properly formatted addresses that are automation compatible.

National Customer Support Center Administers NCOA Program

In 1986, the Postal Service implemented the NCOA program, which extends the Postal Service's use of mail forwarding information to update business mailers' address lists.[2] The NCOA program is administered by the NCOA program office within the National Customer Support Center, which is located in Memphis, TN. The Center's Director reports to the Manager, Address Management, under the Vice President for Operations Support. Before introducing this program, the Postal Service notified business mailers of changed addresses after their mail had been sent out and forwarded, returned, or discarded. The NCOA program, however, confronts this problem before the mail piece enters the mail stream by using contractors licensed by the Postal Service to provide business mailers updated change-of-address information.

Privacy Laws Restrict Postal Service Use of Name and Address Data

The Postal Service's authority to disclose address information about its customers is limited by certain privacy guarantees in two federal laws. Section 412 of the Postal Reorganization Act of 1970 (39 U.S.C. 412) restricts the Service's release of certain names or addresses as follows:

> "Except as specifically provided by law, no officer or employee of the Postal Service shall make available to the public by any means or for any purpose any mailing or other list of names or addresses (past or present) of postal patrons or other persons."

Subsequently, in 1974, Congress passed the Privacy Act (5 U.S.C. 552a) to more broadly protect individuals from the unauthorized use of records that federal agencies maintain about them and to give them right of access to those records. Subsection (n) of this act also applies to address correction but, in contrast to related provisions of the 1970 Act, restricts certain uses of a name and address as follows: "An individual's name and address may not be sold or rented by an agency unless such action is specifically authorized by law."

In 1991 and again in 1992, Congress held hearings addressing the privacy implications of the Postal Service's address-correction services.[3] These hearings focused on public concerns about the increasing volume of mail generated through the use of mailing lists, and raised questions about (1) the legality of certain Postal Service address-correction processes and

[2]The NCOA program is one of several address-correction services offered by the Postal Service to help ensure that accurate addresses are available to and used by mailers.

[3]Hearings before the Subcommittee on Postal Operations and Services, House Committee on Post Office and Civil Service (October 10, 1991), and before the Subcommittee on Government Information, Justice, and Agriculture, House Committee on Government Operations (May 14, 1992).

(2) the adequacy of Postal Service oversight of the NCOA program to ensure compliance with the privacy provisions in federal law. A bill (H.R. 434) introduced in January 1995 would, among other provisions, allow any person notifying the Postal Service of a change of address to deny it permission to disclose such information.

Objectives, Scope, and Methodology

The objectives of our review were to determine (1) how the Postal Service collects, disseminates, and uses NCOA program data to provide mailers with accurate change-of-address information and (2) whether the Postal Service adequately oversees the release of NCOA data in accordance with privacy provisions of relevant federal laws. Because we were asked to review only the NCOA program, we did not review other Postal Service address-correction programs.

To meet our first objective, we interviewed Postal Service headquarters officials in the Office of Address Management Systems, Operations Support Division, and officials and technical support staff at the National Customer Support Center and the NCOA program office in Memphis, TN. We also reviewed relevant records provided by these officials on the NCOA data gathering and dissemination process, including some correspondence from licensees on how they used NCOA data.

To meet our second objective, we obtained and reviewed federal laws, legislative histories, congressional hearings, and other pertinent literature on privacy issues to better understand Congress' concerns about U.S. citizens' privacy rights and their relation to the name and address records the Postal Service uses to provide address-correction services. As we did in responding to objective one, we met with Postal Service representatives in Memphis to discuss and document how NCOA program oversight is maintained and what controls the Postal Service uses to ensure that the release of NCOA address information complies with applicable statutory constraints. Additionally, we reviewed files and other records of Postal Service NCOA program oversight activities; however, finding them to be incomplete, we relied more on information obtained from our interviews of Postal Service officials. Finally, we obtained written explanations from the Postal Service's Chief Counsel for Ethics and Information Law regarding privacy issues pertinent to our second objective.

To meet both objectives, we met with representatives of TRW Target Marketing Services, located in Allen, TX—which in 1994 was one of the NCOA program's largest licensees in terms of volume of client address

records processed. In this meeting, we obtained information and company views on how the NCOA program works, as well as on the Postal Service's oversight of the program.

On May 30, 1996, the Postmaster General provided written comments on a draft of this report, which are discussed beginning at page 20 and reprinted as appendix II. Our review was conducted from August 1994 through October 1995 in accordance with generally accepted government auditing standards.

How the NCOA Program Is Used to Collect and Disseminate New Address Data

Since its implementation, the NCOA program has effectively reduced the volume of misaddressed mail processed through the Postal Service's Computerized Forwarding System,[4] according to the program manager. Before 1986, the volume of such mail was increasing annually, along with the overall volume of all mail. However, during the period in which the NCOA program has been operational, the volume of mail processed through the forwarding system has remained relatively constant, averaging about 2.4 billion pieces annually, while the total mail volume has continued to increase—by about 27 percent from late 1985 to 1995.

The address-correction process begins when a postal customer submits a signed Change of Address Order (Postal Service Form 3575) to a local post office to have mail forwarded. (See app. I for a copy of the July 1995 form). Post office employees are to verify that the form is complete and then pass it on to one of 212 Computerized Forwarding System units located in the United States and Puerto Rico. These units are to convert the data to electronic form for use in the mail forwarding process and in the NCOA program. Using the completed change-of-address form, the Postal Service follows a policy of forwarding first-class mail to new addresses for 1 year. Although filing a change-of-address order is voluntary, customers who want their mail forwarded after moving must submit the form and must accept that the Postal Service will further disseminate the new addresses to commercial mailing list holders through the NCOA program.

Each workday, the National Customer Support Center collects change-of-address data from the forwarding units. These data are then to be standardized into the Postal Service's "preferred address with ZIP[5] + 4 code" format and used to update a centralized database of change of address records—i.e., the master NCOA file. This file contains more than

[4]This system is used to forward mail that cannot be delivered as addressed.

[5]Zoning Improvement Plan.

110 million permanent change-of-address records. It covers the most recent 36-month period based on the move dates that customers report. Newly reported moves are to be added and those dated over 36 months are to be deleted biweekly. The computer programs used to maintain the master NCOA file and all data released from it are to be controlled by the National Customer Support Center.

Licensees Are to Receive New Address Data Biweekly

The Postal Service has licensed, for a fee paid by the licensees, the master NCOA file to a limited number of companies, which in turn use the file to correct addresses on their mailing lists and sell address-correction services to other businesses. As of December 1995, 24 companies were licensed, including some of the nation's largest firms in the direct marketing and credit reporting industries, such as Donnelly Marketing, Inc., a leading direct mail marketing company; TRW Target Marketing Services, which operates primarily in the direct marketing industry; and Metromail Corporation, which primarily provides address services for direct marketing purposes.[6] In 1995, 22 companies each paid $80,000, and the remaining 2 each paid $120,000, to the Postal Service under the licensing agreements.

Each licensee is responsible for maintaining a complete and current NCOA file. Every 2 weeks, the NCOA program office within the National Customer Support Center is to provide licensees with a copy of the NCOA file update tapes, which on average contain about 1.1 to 1.5 million change-of-address records. Licensees are to use these tapes, which include address deletions, additions, and changes, to update the NCOA files they maintain. Licensees then use the NCOA files and address-matching logic designed into their computer software to update addresses on their customers' mailing lists as well as their own mailing lists.

Since all records in the NCOA file are to be in the Postal Service's standardized address format, licensees must convert customers' mailing lists, to the extent possible, into the same standardized address format before any matching occurs. This initial step may also identify and correct incomplete or inaccurate addresses on the licensee's list. The resulting standardized lists are to be matched with the NCOA file by the licensees using address-matching computer software tested and approved by the

[6]Direct marketing refers to the use of mail services to target advertising materials to specific segments of the American population. Since the mid-1980s, direct marketing has flourished primarily because of the ability to use large-scale, integrated, automated files to combine various demographic characteristics of the consuming public—such as age, income, neighborhood, etc., for increasing the return on advertising and marketing investments.

NCOA program office, as required by the Postal Service. Each licensee's software must meet the performance standards specified in the licensing agreement, and only approved software may be used to provide NCOA services.

Under these procedures and conditions, each licensee is to update an address on a mailing list only when a name and address on that list matches a name and old address in the NCOA file. Licensees are to provide their customers the original address as it was presented on each customer's list; the standardized address, including the correct ZIP + 4 code; and a new address where a match was found. When a match is found and a new address is disclosed, licensees may also disclose other information, such as whether the address is for a family, individual, or business and when the move became effective.

The Postal Service Restricts Licensees' Use of Name and Address Data

Postal Service officials said they believe that the design and implementation of the NCOA program fully complies with applicable federal privacy laws. Postal Service officials said that they analyzed federal privacy laws and that releasing the NCOA file to licensees to provide address-correction services and licensees' subsequent release of new addresses of postal customers—whose names and old addresses are already on a licensee's or its customer's lists—are lawful when done in accordance with the provisions and conditions of the licensing agreement. In a July 12, 1995, letter to us, the Postal Service's Chief Counsel for Ethics and Information Law said that disclosure of the NCOA file to the licensee is supported by subsection (m)(1) of the Privacy Act.[7] He said that because licensees act as representatives of the Postal Service when performing the list correction function, disclosure to the licensees does not constitute disclosure to the "public" within the meaning of section 412 of the Postal Reorganization Act of 1970. Furthermore, the Chief Counsel said that release of the information by a licensee to its customer for the limited purpose of list correction is permissible routine use.

Postal Service officials emphasized that the Postal Service does not provide names to be included on any lists, whether held by its licensees or by their customers. Postal Service officials said that the information provided to licensees, and by licensees to their customers, under the NCOA program is limited to the new addresses of persons whose names and addresses are already on the licensee's or the customer's list. Thus, Postal

[7]Under 5 U.S.C. 552a(m)(1), contractors and their employees are treated as agency employees for the purpose of assessing criminal penalties for unauthorized disclosures as set forth in that section.

Service officials said they believe that the NCOA program does not violate the prohibition in the Privacy Act against the unauthorized disclosure of an individual's "name and address."

Privacy Provisions of the Licensing Agreement

Postal Service officials said they believe that the NCOA licensing agreement, with its conditions and performance provisions, helps to ensure that federal privacy guarantees are not compromised through the operation of the NCOA program. The licensing agreement requires licensees to provide mailing-list correction services according to standards set by the Postal Service, and specifies licensees' obligations under the Privacy Act.

Postal Service officials said they believe that the prescribed standards for licensee performance provide the Postal Service a basis for monitoring performance to ensure the quality of the service provided and compliance with the privacy restrictions of federal law. For example, the agreement sets minimum standards for the performance of the computer software that licensees use to provide the NCOA service. It also establishes requirements for maintaining a current NCOA file, for timeliness of the service, and for safeguarding the NCOA file and the lists that customers submit for the address-correction service.

The licensing agreement specifies the Privacy Act restrictions that Postal Service officials said they believe apply to the release and use of NCOA address information. The agreement states that the NCOA file is a system of records, as defined in subsection (a)(5) of the Privacy Act, and is subject to its provisions. It states that if, at any time during the term of the agreement, the licensee fails to comply with or fulfill any of the terms or conditions of the agreement, the Postal Service may, at its discretion, terminate the agreement.

The agreement prohibits licensees from disclosing or using the information in the NCOA file for any purpose other than correcting addresses on preexisting lists. Licensees are required to institute procedural and physical safeguards to ensure the security of the information in the NCOA file, as well as to maintain an accurate accounting of all disclosures of information in the file in accordance with subsection (c) of the Privacy Act. The agreement points out that the Postal Service may conduct impromptu audits to evaluate the potential for unauthorized access, disclosure, or misuse of the NCOA file, as well as to ensure that all performance requirements are met. The agreement also points out that the licensee and its employees are subject to the criminal penalties set out in

subsection (i)(1) of the Privacy Act for any willful disclosure prohibited by the act.

Licensing Agreement Modified to Strengthen Control and Oversight

After the congressional hearings held in 1991 and 1992, mentioned previously, the Postal Service modified, in May 1994, certain provisions of the licensing agreement.[8] The Service took steps to clarify the licensing agreement restrictions on the use of NCOA data, strengthen its oversight of licensee performance, and provided for suspending any licensee who fails to comply with the terms and conditions of the agreement.

Prohibition on Use of NCOA Services

As modified, the agreement specifies certain practices that are prohibited, such as the creation of new-movers lists. The use of new-movers lists is reportedly an important and common practice in the mail marketing industry. New-movers lists can be created by updating an existing list of names and addresses using NCOA data or other sources of current-address data. Individuals on the existing list whose addresses have changed are considered to have "moved," and the names and new addresses of these individuals can be used to create or supplement a new-movers list. These lists can be used by list holders for their marketing purposes—e.g., to offer products or services to anyone who moves into a new home, or they can be sold to others.

The use of NCOA services to create or maintain new-movers lists has been controversial and, as explained hereafter, the Postal Service has not expressed a clear and consistent position regarding prohibitions on using NCOA data to create such lists. During congressional hearings in May 1992 on the NCOA program and privacy issues, evidence was presented that some licensees were producing and selling new-movers lists using NCOA-linked data. At that time, the Postal Service Director, Office of Address Management Systems,[9] testified that the protections afforded individuals by federal privacy law do not extend to proprietary lists that have been appropriately updated by the NCOA service and that the Postal Service was not responsible for how such lists are used. The Director said, in part, that

> "Licensees, as well as their customers, hold mailing lists which are their intellectual property. We believe that by availing themselves of the NCOA and other services, those lists are legally and properly updated and that our management of these services fully comports with all of the laws which you have listed, as well as any others which may exist.

[8]The Postal Service and its licensees refer to this change to the agreement as "Modification 75."

[9]At the time of our review this position was entitled Manager, Address Management.

"The simple fact of the matter is that once a list holder has acquired a corrected address through address correction service, we do not believe it is the intent of the law, nor do we believe it is the role of the Postal Service to attempt to police how the private sector uses their own intellectual property for their business reasons."

This position, however, is contrary to the conclusion reached by the Committee on Government Operations in its November 24, 1992, report (House Report 102-1067) following the 1992 congressional hearings. The Committee found that the NCOA program contravenes section 412 of the Postal Reorganization Act and subsection (n) of the Privacy Act. Among its other reasons for this conclusion, the Committee focused on the creation and sale of NCOA-linked new-mover lists by licensees as violating the restrictions imposed by the Privacy Act.

The Postal Service later added a prohibition in the licensing agreement on the creation of new-movers lists. Specifically, the licensing agreement was modified in May 1994 to read, in part, as follows:

"The sole purpose of this license and of the standardized name and address matching services is to provide a mailing list correction service for lists that will be used for the preparation of mailings. Information obtained or derived from the NCOA file or service shall NOT be used by the Licensee, either on its own behalf or knowingly for its customers, for the purpose of creating or maintaining "new-movers" lists.

"As with the NCOA file itself, no proprietary Licensee list, which contains both old and corresponding new address records, if it is updated by use of the NCOA file, shall be rented or sold or otherwise provided, in whole or in part, to Licensee customers or anyone else."

Postal Service officials said that the above prohibition was not new but, rather, that the above language clarified restrictions that were already stated in broader terms in the original licensing agreement. However, the statement that the prohibition was not new appears to be contrary to the testimony quoted previously from the May 1992 congressional hearings.

Further, in the May 1994 modification, the Postal Service imposed new requirements to limit the use of NCOA-linked data by the customers of licensees. However, in contrast to the modification provision applicable to licensees, this new requirement does not state explicitly that the prohibition on the use of NCOA-linked data to create new-movers list applies to the licensees' customers. Specifically, the Postal Service added a requirement to the licensing agreement that, at least once each year, licensees are to have customers sign an "NCOA Processing

Acknowledgement Form." By signing the form, customers acknowledge their understanding that "the sole purpose of the NCOA service is to provide a mailing list correction service for lists that will be used for the preparation of mailings." However, the form is not clear as to any specific prohibitions on the use of NCOA services by licensees' customers because the form does not explicitly state that NCOA data are not to be used to create or maintain new-movers lists.

Postal Service officials said they continue to believe that neither the Privacy Act nor the Postal Reorganization Act of 1970 limit in any way licensees' and customers' use of address data that have been properly updated or corrected through the NCOA service. The Manager, Address Management said that the change to the licensing agreement cited above was made as a "good business practice" to address concerns raised by Congress and the public in the 1992 congressional hearings.

We do not question the Postal Service's view that the disclosure of NCOA data to licensees for the specific and limited purpose of address list correction is permitted under the Privacy Act and the 1970 Act. However, we do not agree that the Privacy Act allows licensees to use NCOA-linked data to create new-movers lists, which may then be sold to their customers. As the Postal Service acknowledges, under the Privacy Act (5 U.S.C. 552a (m)(1)), the NCOA licensees operate on behalf of the Postal Service. As such, they are subject to provisions of the Privacy Act that allow an agency record to be disclosed provided that it is used for a purpose compatible with the purpose for which it was collected. Like the Postal Service, licensees may use the information disclosed only for the limited purpose of address-list correction, which is the routine use and purpose for which the Postal Service collected such information. Thus, in our view, use of NCOA-linked data by a licensee for the purpose of creating a new-movers list would not be consistent with the limitations imposed by the Privacy Act.

Other Provisions Added on Audit and Suspension of Licensees

In addition to the above changes, the May 1994 modification called for increasing the frequency of Postal Service audits that licensees must pass, from one to at least three each contract year. The modification further added the alternative of suspending a licensee for failure to comply with the terms and conditions of the agreement pending verification that the deficiencies have been corrected. Previously, the agreement provided only for the outright termination—at the Service's discretion—of a licensee who failed to comply with provisions of the agreement.

The Postal Service Has Not Reasonably Ensured Licensees' Compliance With Licensing Agreement Privacy Provisions

The Postal Service's oversight fell short of ensuring that licensees have met the provisions and conditions of the licensing agreement and, thus, did not ensure that the NCOA program was operating in compliance with federal privacy laws. The Postal Service's oversight procedures and processes have been weak with regard to (1) "seeding" the NCOA files with fictitious records to discourage unauthorized name and address disclosure by licensees; (2) auditing the performance of licensees' NCOA software and conducting impromptu site visits to monitor whether licensees are complying with various licensing agreement requirements; (3) reviewing licensees' proposed advertisements for NCOA services they sell; and (4) investigating NCOA program-related complaints.

Weaknesses in the Seeding Process

Our review of files and discussion of the seeding process with NCOA program officials disclosed certain management practices and inattention to procedure that, we believe, have limited the value of seeding as a control to ensure against the improper disclosure of NCOA data. Seeding is commonly used in the mailing industry to control proprietary records. The Postal Service periodically plants "seed" records when updating licensees' NCOA files. A seed record is any nonmatch data placed in the NCOA file by the Postal Service and so designed that it will be released to mailing list holders only through improper use of the NCOA file. Licensees are aware that the NCOA files are seeded by the Postal Service, but according to NCOA program officials, specific seeding data are guarded against disclosure to licensees and the public.

Postal Service officials said they believe that, if a licensee disclosed information from the NCOA file by any means other than through the approved computer software, fictitious seed address records would also be disclosed. Mail sent to seed record addresses would then be retrieved by the NCOA program office, alerting it to a possible improper disclosure of NCOA information. The NCOA program office would then trace the seed record back to the licensee who released it, and the Postal Service would take disciplinary and/or corrective action. The NCOA program manager reported that he was not aware that any seed mail had ever been received.

Program officials told us that they had seeded NCOA files since the program began but had not retained historical records of seeding for the complete period. Available documentation of seeding activities began with the NCOA file update in July 1990. Our review of this documentation and information provided by program officials disclosed several weaknesses in the seeding

process and documentation of the process as an NCOA program control measure.

- From July 1993 to April 1994, the NCOA files contained no seed records because the program office neglected to replace those records when they became 36 months old and were deleted. Seed records loaded in July 1990 were deleted in July 1993, some 36 months later. Seed records were not replaced in licensees' NCOA files until April 1994.
- Program officials were not aware of this gap in seed coverage until our review. They said the gap was a "technical" error that was not particularly serious because the main value of seeding as a control comes from the licensees' awareness that the Postal Service seeds the NCOA files. Program officials said they did not believe that licensees were aware that the gap in seed coverage had occurred.
- Program officials told us that before November 1994, the program office used only seed records unique to each licensee. All name and address updates to the licensees' NCOA files by the Postal Service were identical, except for seed record names and addresses unique to each licensee. Program officials said they believed that this feature would enable them to trace any mail received at seed addresses to the licensee who released the record. However, it is possible that seed records could be identified and neutralized by two or more licensees who agreed to compare their NCOA files.
- After we discussed our concerns with NCOA program officials, in November 1994, the program office began using some "common" seed records. Under this new feature, a quantity of identical seed records are introduced into the NCOA files of all licensees, along with some seed records that are unique to each licensee. Although this procedure may help to identify any improper disclosure of addresses by licensees, it will not allow the Postal Service to identify which licensee was responsible for the impropriety if licensees compared their NCOA files to identify unique seed records because all licensees will have had access to a common seed record.
- The Postal Service process for seeding, identifying, and responding to mail that might be sent to a seed address was informal. There were no written procedures on the seeding process, the process for retrieving mail sent to seed addresses, or the process for investigating mail sent to seed addresses and then reporting the results of the investigation internally.
- The National Customer Support Center manager stated that the informal mail retrieval process was tested in 1990 and again in 1992. He said that the test results showed that this process worked in that test mail sent to the seed addresses through the regular mail stream was properly

forwarded back to the NCOA program office. However, the manager told us that there was no record of these tests and that the results were not reported within the Postal Service. He said that procedures were revised in January 1995 to specifically cover what postal field personnel are required to do when they identify mail to be delivered to seed addresses.

Questionable Effectiveness of Licensee Audits

On the basis of our examination of poorly maintained audit files and subsequent discussions with NCOA program officials, we were unable to (1) confirm that we had identified all Postal Service audits of licensees or (2) fully assess the Postal Service's management of audits. However, on the basis of our review of the records available and on interviews with program officials and staff, we question whether the licensee audits, as administered by the program office, provided a meaningful oversight measure of compliance with the applicable privacy provisions of federal law.

During most of the program's history, unannounced on-site audits were to be conducted annually at the licensees' facilities. These audits were to include tests of licensees' NCOA software accuracy and verification of licensees' compliance with other licensing agreement provisions, such as the provision to prevent unauthorized access to the NCOA file. Under the licensing agreement, the Postal Service allows a licensee that fails an audit 30 days to correct the problem and be retested. This period is to begin when the Postal Service's contracting officer notifies the licensee of the audit results.

In 1992, the program office introduced an "automated" audit administered through a test tape mailed to each licensee. According to the program manager, the automated audit focused on a more comprehensive assessment of the accuracy of the licensees' NCOA software. The audits are designed to detect both the failure of licensees' NCOA software to make appropriate matches and instances of incorrect matches. Matching of names and addresses results in the release of new addresses to the mailing list holders and, eventually, into the mail stream. Incorrect matches, therefore, are more serious because they can result in the release of new addresses in violation of federal privacy laws.

The Postal Service has set a high standard for the performance of licensees' address-matching software. The licensing agreement specifies that a licensee's address-matching software must achieve a 99-percent matching accuracy rate. That is, the software may produce no more than

one error per 100 name and address matches as analyzed and scored by the program office.

In May 1994, the Postal Service significantly modified the licensing agreement to, among other things, strengthen the Service's oversight of licensees through audits. Before this modification, NCOA program officials said that licensees were audited at least once a year and that the only option available to the Postal Service under the licensing agreement was to terminate the license of a licensee who failed successive audits. The modification requires licensees to pass at least three audits each contract year and provides the option of either suspending or terminating licensees that fail two consecutive process audits or that fail to comply with other terms or conditions of the licensing agreement. Further, the modification requires the Postal Service to terminate the license of any licensee that fails three consecutive audits.

Since 1992, the NCOA program office has maintained a separate file on each licensee containing various items of correspondence, internal memorandums, notes, and other information relating to process audits performed. We reviewed the files for details of process audits conducted during 1992 and 1993. The files we reviewed, however, generally did not contain complete records of the audits performed, audit results, or resolution of audit findings.

We were able to ascertain from the files, however, that in 1992 at least 65 automated audits were made of the 25 firms licensed at that time to provide NCOA services. All but one licensee failed the initial audit. Seven licensees passed the first follow-up audit. Another seven licensees failed the first follow-up audit but passed a second follow-up audit. However, 10 licensees failed all automated process audits performed that year.

The Postal Service did not terminate the license of any of the 10 licensees who failed successive process audits during 1992. In fact, these licensees continued to provide NCOA services with address-matching software that had failed repeatedly to meet the performance standards for accuracy required by the licensing agreement. For example, four licensees failed an initial audit in May 1992, and then failed two follow-up audits, before finally passing an audit conducted in March 1993. However, these same licensees were allowed to continue providing NCOA services during the 10-month period in which their software failed to meet the Service's minimum standard for accuracy.

The NCOA program manager explained that the pattern of repeated audit failures resulted from the increased thoroughness, coverage, and focus on software accuracy of the new automated process audit as compared with earlier process audits. He acknowledged that program oversight had not been carried out as strictly as it could have been because program officials did not want to terminate licensees from the program, which was the only option available under the licensing agreement at that time.

The program manager believed that the Postal Service correctly opted to work with the licensees to resolve the software deficiencies identified in the 1992 audits. He indicated that, among other things, most of the software performance errors involved failures to make any matches rather than making inappropriate matches. He also said that the program office staff responded promptly to ensure that licensees corrected software weaknesses identified in the audits, which may have affected compliance with federal privacy laws.

During 1993, the Postal Service audited the 10 licensees who failed all audits conducted during 1992. Each of these 10 licensees passed the 1993 audit. The NCOA program manager explained that other licensees were not audited during 1993 because, starting in about March of that year, the entire master NCOA file was redesigned, and licensees had to change their software to accommodate this redesign. Further, the NCOA program office had a contract with one of its NCOA licensees for computer support to build and maintain the master NCOA file. The program office brought this function in-house in October 1993. Consequently, according to the program manager, all program staff who would have done the licensee audits were instead used to support this transition and maintain the NCOA file.

Inadequate Information to Determine the Effectiveness of Advertising Review

We were unable to completely evaluate this oversight activity because the NCOA program office did not have historical records of any advertisements either submitted or reviewed. However, the information that we were able to obtain indicated that the program office was not effectively overseeing licensees' advertising activities. Specifically, we found that although at least two licensees had advertised NCOA-linked new-movers lists and had submitted these advertisements to the Postal Service for review, no action had been subsequently taken by the Postal Service to disapprove the advertisements. The May 1994 modification stated that a licensee's advertising will be disapproved if it includes any reference to NCOA or the Postal Service.

The licensing agreement requires licensees to submit all proposed advertising and methods of selling NCOA program-related services to the NCOA program office for review and approval. The purpose of this requirement is to ensure that licensees' customers are not misled by the advertising or sales methods used, as well as to specifically ensure that the relationship between the Postal Service and the licensee is correctly represented. The licensing agreement states that the Postal Service will provide the licensee with a written response on the acceptability of proposed advertising within 20 working days of receipt of the material. However, if the licensee does not receive a written response within this time, the agreement states that the licensee may consider the proposed advertisements or sales methods approved for use.

The program manager told us that licensees had regularly submitted their proposed NCOA-related advertisements to the program office for review. However, our review of licensee contract files and discussions with a licensee disclosed that at least two licensees had regularly submitted advertising materials for NCOA-linked new-movers lists for Postal Service review and approval and that the program office had not responded. For example, a May 19, 1994, letter from a licensee stated that it had regularly submitted for review copies of its advertisements promoting NCOA-linked new-movers lists since inception of the NCOA program but that the Postal Service had never responded.

As noted earlier, Postal Service officials said that the change to the licensing agreement that specifically prohibited the creation of NCOA-linked new-movers lists was to make more explicit the existing restrictions on uses of NCOA data. Therefore, even before the licensing agreement was modified in 1994, the exercise of effective oversight should have dictated that the Service inform licensees who proposed advertisements promoting NCOA-linked new-movers lists that such advertisements were not permitted by the licensing agreement. However, the Postal Service failed to respond to these proposed advertisements.

In discussing this issue with the program manager, we were told that, notwithstanding the advertisements submitted for review, the Postal Service had not fully understood how licensees were using the NCOA file—i.e., to create NCOA-linked new-movers lists. When it became clear that licensees were creating such lists, the licensing agreement was modified to specifically (1) preclude licensees from creating and maintaining new-movers lists for either their own use or the use of their customers and (2) state that a licensee's advertising will be disapproved if

it includes any reference to NCOA or the Postal Service anywhere in any text or graphics that include a reference to nonmailing products and services, such as new-movers lists.

Uncertain Effectiveness of Complaint Investigations

Another oversight or control mechanism over licensees that the Postal Service reportedly uses is the investigation of NCOA-related complaints emanating from the public, the licensees themselves, or their customers. However, because the program office had no records of complaints received or related investigations, we could not assess the effectiveness of the complaint investigation process as a control mechanism.

The NCOA program office's complaint investigation process was informal and lacked structure. The office could provide us with no record of complaints received. Further, we found no evidence of a formal process for logging complaints, investigating complaints, and reporting the results of investigations internally or to complainants. According to the program manager, a few complaints had been received, which were mainly related to customer misunderstandings about the NCOA-related services that licensees provide.

Conclusions

In establishing the NCOA program, the Postal Service took a positive step toward dealing with the inefficiencies of processing misaddressed mail. In setting up and using a nationwide database of postal customer names and addresses to provide this address correction service, the Postal Service has tried, primarily through changes to licensing agreements, to create controls that help ensure that the release and use of NCOA information complies with the provisions of federal privacy laws. The Postal Service said it believes that it has met its legal responsibilities through program design and oversight.

However, at the time of our review, the NCOA program was operating without clearly delineated procedures and without sufficient management attention to ensure that the program was operating in compliance with the privacy provisions of federal laws. Specifically, the Postal Service lacked adequate written procedures and oversight processes regarding

- seeding the NCOA files with fictitious records to discourage unauthorized name and address disclosure by licensees;
- obtaining and reviewing, in a timely manner, licensees' proposed advertisements that mention the NCOA program, taking prompt action to

disapprove inappropriate advertisements, and documenting the results; and

- documenting all NCOA-related complaints received and actions taken to address the complaints.

The NCOA program office's absence of written procedures and inattention to processes allowed seeding control features to lapse for a 9-month period before the condition was discovered and corrected. Also, several licensees had advertised NCOA-linked new-movers lists, submitted the advertisements to the Postal Service for review, and yet the Postal Service had taken no action to disapprove the advertisements. Further, with regard to complaints, the NCOA program office had no records of complaints received or related investigations, although officials said that complaints had been received.

The NCOA program office had not implemented and enforced some provisions of the licensing agreement, including those requiring a minimum number of licensee audits each year and the termination of licensees that failed to maintain address-matching software that meets the performance standards prescribed in the license agreements. Ten licensees failed successive audits of their software and continued to provide NCOA services in 1992. When licensees' software does not perform according to the standards, the Postal Service cannot be sure that the NCOA program is operating in compliance with federal privacy laws.

Finally, we found that the Postal Service had not clearly communicated, through licensees, to licensees' customers, the restrictions on the use of NCOA data to create or maintain new-movers lists. That is, the Postal Service had not explicitly stated in the acknowledgment form—to be signed by customers of licensees—that NCOA data are not to be used to create or maintain new-movers lists, a restriction that the Service has communicated to licensees.

Recommendations

To strengthen oversight of the NCOA program, we recommend that the Postmaster General require the NCOA program office to

- develop and implement written oversight procedures, which should include (1) the responsibilities and timetables for using seed records to help verify that licensees release new addresses only as a result of accurate name and address matching; (2) requirements to obtain and review licensees' NCOA-related proposed advertisements, document the

review, and notify licensees of the results within the time period prescribed in the licensing agreement; and (3) requirements for systematically recording all NCOA-related complaints received, including actions taken to resolve complaints; and in addition,

- enforce all provisions of the licensing agreement, including (1) conducting at least the prescribed minimum number of licensee audits, currently three per contract year; and (2) suspending or terminating, as appropriate, licensees that fail two consecutive audits or that are determined to be in noncompliance with other terms or conditions of the licensing agreement. (As provided in the agreement, licensees that fail three consecutive audits should be terminated.)

We also recommend that the Postmaster General further restrict the use of NCOA-linked data to create or maintain new-movers lists by explicitly stating it on the acknowledgment form that is signed by customers of NCOA licensees.

Postal Service Comments and Our Evaluation

In a May 30, 1996, letter (see app. I) the Postmaster General commented on a draft of this report. He said that the Postal Service had implemented our recommendations to develop written oversight procedures for conducting NCOA seeding operations, reviewing and responding to NCOA-related advertisements, and investigating complaints about the program. He said also that the Postal Service was pleased that we did not question the lawfulness of licensing NCOA data for the purpose of address-list correction. It is important to note that, while we did not question the legality of the Postal Service's arrangements with licensees to provide address list correction services, we disagree with its view that the Privacy Act allows licensees to use NCOA-linked data to create new-movers lists.

The Postal Service did not adopt our recommendation that restrictions on the use of NCOA-linked data to create or maintain new-movers lists be included in the acknowledgment form that is to be signed by NCOA licensees' customers. The Postal Service primarily provided three reasons for its decision to not adopt our recommendation, which are summarized below along with our evaluation.

First, the Postal Service said it does not believe that a restriction on the creation and maintenance of new-movers lists from NCOA-derived data is required by privacy law. For the reasons stated earlier in this report, we continue to believe that use of NCOA-linked data by a licensee for creating a

new-movers list would not be consistent with the limitations imposed by the Privacy Act. The Postal Service did not provide any new evidence or rationale for its view that the Privacy Act permits licensees to use NCOA-derived data for purposes other than address-list correction, which is the routine use or purpose for which the Postal Service collected such information.

Second, the Postal Service said that effective enforcement of such a restriction on customers of licensees would be impracticable. The Postal Service said that the Privacy Act does not govern the private sector and provides no basis for requiring the Service to control what the private sector does with address corrections legitimately obtained from the Postal Service. The Postal Service said it believes that it would be inappropriate to place limitations on licensees' customers, with whom the Service has no formal relationship.

Regarding this second point, we recognize that enforcement of the restrictions on third parties, i.e, licensees' customers, might be difficult because the Postal Service has no contractual relationship with licensees' customers. However, we do not believe that a potential difficulty of enforcing such restrictions under arrangements made with licensees means that the Postal Service should not clearly communicate what those restrictions are. NCOA licensees operate on behalf of the Postal Service and are subject to the same provisions of the Privacy Act as the Service, which allows an agency record to be disclosed provided the record is used for a purpose compatible with that for which it was collected. These records were collected by the Postal Service for address-list corrections, not to create new-movers lists.

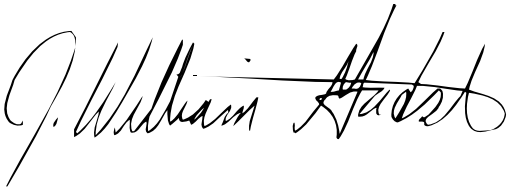
As a practical matter, it appears that the Postal Service could, at a minimum, communicate through licensees to the licensees' customers any restrictions on the use of NCOA data to create or maintain new-movers lists. Acting on behalf of the Postal Service, licensees could help ensure compliance with the restrictions by explaining to their customers the limitations on the release and use of NCOA data under the Privacy Act. Unless the Postal Service implements and attempts to enforce these limitations, it cannot ensure that use of NCOA-derived data is limited to the purpose for which it was gathered.

Third, the Service said that we misinterpreted the purpose of the acknowledgment form when we said that it was "to limit the use of NCOA-linked data by the customers of licensees." The Service said that the

purpose of the form is to ensure that lists presented to licensees for correction are really mailing lists. The acknowledgment form states that the sole purpose of the NCOA service is to provide a mailing-list correction service for lists that will be used to prepare mailings. We believe that this language does limit the use of NCOA-linked data. However, the Postal Service had not explicitly stated in the acknowledgment form the specific restriction that it communicated to licensees, namely, that NCOA data are not to be used to create or maintain new-movers lists. We are recommending that the Postmaster General explicitly state this restriction on the acknowledgment form. Also, the Postal Service said that it has never acknowledged that the creation of new-movers lists by customers is prohibited. We clarified in our report that the Postal Service had communicated the prohibition on the creation of new-movers list to licensees—but not to their customers.

We are sending copies of this report to the Ranking Minority Member of this Subcommittee, the Postmaster General, and other interested parties. Copies will also be made available to others upon request.

The major contributors to this report are listed in appendix III. If you have any questions about the report, please call me on (202) 512-8387.



J. William Gadsby
Director, Government Business
Operations Issues

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Abbreviations

NCOA National Change of Address

U.S. Postal Service Change of Address Order (Postal Service Form 3575, July 1995)

UNITED STATES
POSTAL SERVICE

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

NOTE: PRINT the City, State, and ZIP Code of your **OLD** address on the line provided below. The person signing this form states that he or she is the person, executor, guardian, authorized officer, or agent of the person for whom mail would be forwarded under this order. Anyone submitting false or inaccurate information on this form is subject to punishment by fine or imprisonment or both under Sections 2, 1001, 1702 and 1708 of Title 18, United States Code.

PRIVACY ACT: Filing this form is voluntary, but your mail cannot be forwarded without an order. If filed, your new permanent address will be provided to individuals and companies who request it. This will occur ***only*** when the requestor is already in possession of your name and old mailing address. Use Form 3576 to tell correspondents and publishers of address changes. Authorized 39 U.S.C. 404.

BUSINESS REPLY MAIL
FIRST-CLASS MAIL PERMIT NO. 73026 WASHINGTON, DC

TO: POSTMASTER (OF OLD ADDRESS)
UNITED STATES POSTAL SERVICE

(Front of form)

U.S. Postal Service
CHANGE OF ADDRESS ORDER

Instructions: Complete Items 1 thru 10. You must SIGN Item 9. Please PRINT all other items including address on face of card.

OFFICIAL USE ONLY
Zone/Route ID No.
Date Entered on Form 3982 M M D D Y Y
Expiration Date M M D D Y Y
Clerk/Carrier Endorsement

1. Change of Address for: *(Check one)* ☐ Individual ☐ Entire Family ☐ Business
2. Start Date: Month Day Year
3. Is This Move Temporary? *(Check one)* ☐ No ☐ Yes, Fill in ▶
4. If TEMPORARY move, print date to discontinue forwarding: Month Day Year
5. Print Last Name *(include Jr., Sr., etc.)* or Name of Business *(If more than one, use separate form for each).*
6. Print First Name *(or Initial)* and Middle Name *(or Initial).* Leave blank if for a business.
7a. **For Puerto Rico Only:** if **OLD** mailing address is in Puerto Rico, print urbanization name, if appropriate.
7b. Print **OLD** mailing address: House/Building Number and Street Name (include St., Ave., Rd., Ct., etc.).
Apt./Suite No. or PO Box No. or ☐RR/ ☐HCR *(Check one)* RR/HCR Box No.
City State ZIP Code ZIP+4
8a. **For Puerto Rico Only:** if **NEW** mailing address is in Puerto Rico, print urbanization name, if appropriate.
8b. Print **NEW** mailing address: House/Building Number and Street Name (include St., Ave., Rd., Ct., etc.).
Apt./Suite No. or PO Box No. or ☐RR/ ☐HCR *(Check one)* RR/HCR Box No.
City State ZIP Code ZIP+4
9. Signature: *(See conditions on reverse)* ▶
10. Date Signed: Month Day Year

OFFICIAL USE ONLY
Verification Endorsement

PS FORM **3575**, July 1995

(Back of form)

Comments From the U.S. Postal Service

MARVIN RUNYON
POSTMASTER GENERAL, CEO

UNITED STATES
POSTAL SERVICE

May 30, 1996

Mr. J. William Gadsby
Director, Government Business
Operations Issues
United States General Accounting Office
Washington, DC 20548-0001

Dear Mr. Gadsby:

Thank you for the opportunity to review the draft report entitled, U.S. Postal Service: Improved Oversight Needed to Protect Privacy of Address Changes. We would like to provide comments on the report's specific conclusions and recommendations.

We agree with the report's conclusion that the National Change of Address (NCOA) program was a positive step that has been successful in its mission of reducing the volume of misaddressed mail that we must handle each year. The resulting avoidance of handling costs for misaddressed mail pieces that NCOA provides has been, and continues to be, a primary contributor to the stabilization of postage rates. We are also pleased that the report does not question the lawfulness of licensing NCOA data for the purpose of address list correction.

On the recommendation to develop and implement written oversight procedures regarding the NCOA seed record operation, we have the following comments. Security measures of this type need to be administered on a very restricted basis to be successful. For this reason, we did not create formal written procedures regarding it. Our belief was that to do so created a security risk in and of itself. This risk is manageable, however, and we have now developed written procedures consistent with the recommendation.

On the recommendation regarding NCOA-related advertising review, we agree that written responses would be an improvement and we have already implemented this recommendation.

On the recommendation regarding complaint documentation, we offer the following. In the decade of NCOA operation, service complaints have been rare. Any that had been received were reviewed and resolved on a case-by-case basis and were maintained by the individual who worked each specific case. However, consistent with the recommendation, we have already taken steps to establish a more formal logging procedure and a centralized filing system for these records.

Regarding the recommendation on enforcing all provisions of the licensing agreement, we believe that provisions pertinent to the protection of customer privacy in fact have been duly enforced. While we acknowledge that there was a minor deviation in the administration of the seeding program several years ago, this was corrected, and we believe it did not have any harmful effects on privacy interests. Additionally, we wish to point out that the requirements for name and address matching in the NCOA license program are the most stringent in the entire mailing industry. The audit testing that we conduct fully exercises all facets of these requirements.

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WASHINGTON DC 20260-0010
202-268-2500
FAX: 202-268-4860

In almost all of the audits where an NCOA licensee has failed to achieve the requirement of 99 percent accuracy when measured against our test file, it has been as a result of the licensee's software not making matches that we deemed correct (i.e., missed a legitimate match). Our emphasis has always been to ensure that incorrect matches (those that may provide move information for the wrong person) do not occur. In the very few instances that incorrect matches were observed in audit testing, we acted immediately to notify the licensee and verified that the incorrect match condition was corrected in the next audit. Further, by 1995 we had already taken action, consistent with the recommendation, to ensure that all audits required by the agreement are completed each year.

Each audit failure is evaluated on its own merit. The current license agreement, as modified in May 1994, requires either suspension or termination, at our discretion, if a licensee fails two consecutive audits and further mandates termination after three consecutive audit failures. These requirements are consistent with the report's recommendation. We will exercise these provisions absent compelling reasons to do otherwise. As with audit failures, we have also taken suspension action, where warranted, with respect to issues of noncompliance with other terms or conditions of the license agreement.

The final recommendation is that we add a statement to the NCOA Processing Acknowledgement Form to explicitly prohibit customers of licensees from using NCOA data to create or maintain new-movers lists. We respectfully decline to adopt this recommendation, because we do not believe that privacy law requires it, and because effective enforcement of such a restriction would be impracticable.

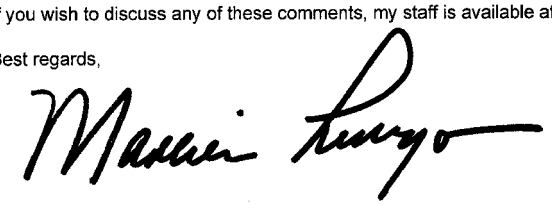
We consider that the report misinterprets that part of the 1994 modification to the license agreement that concerns the customer acknowledgement form. Our purpose in requiring completion of the form by each customer annually is to ensure that the lists presented to the licensees for correction are really mailing lists--the purpose is not, as the report states, "to limit the use of NCOA-linked data by the customers of licensees." Moreover, the Postal Service has never "acknowledged," as GAO states, that creation of new-movers lists by customers is prohibited.

While we have no institutional interest in enabling our customers to create specialized lists, such as lists of recent movers, from proprietary lists that have been corrected with NCOA data, we do not share GAO's opinion that such a secondary use of address corrections is inconsistent with the limitations imposed by the Privacy Act.

The Postal Service has held the opinion from the inception of the NCOA program that since the Privacy Act does not govern the private sector, it does not provide a basis for requiring us to control what the private sector does with address corrections legitimately obtained from the Postal Service. We believe this to be true both for licensees and for their customers. We prohibited the licensees from using the information to create and market new-mover lists primarily to accommodate the concerns expressed by the Committee on Government Operations in its 1992 report, which had focused on the activities of the licensees and their special relationship with the Postal Service. We viewed this action as discretionary, not compelled by law. It would not be appropriate to place similar limitations on the activities of the licensees' customers with whom the Postal Service has no formal relationship.

If you wish to discuss any of these comments, my staff is available at your convenience.

Best regards,



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