

Revenue and Asset Protection

A primary mission of the U.S. Postal Inspection Service is to safeguard postal revenue and assets from criminal attack. While the vast majority of postal customers and employees are honest, Postal Inspectors crack down on large-scale commercial mailers who attempt to underpay postage, as well as employees who try to steal postal funds or who lie about work-related injuries to receive compensation benefits to which they are not entitled.



In FY 2001 the Postal Service reported annual operating revenues of \$64.5 billion. Postal Inspectors are charged with protecting all postal revenue and assets.

Revenue Investigations

Postal Inspectors determine which products and sources of revenue pose the highest risk in potential losses to the Postal Service each year and target their investigations accordingly. For the past several years, fraud schemes involving large-scale business mailers have led the way, with metered, presorted, nonprofit and Periodical mail receiving priority attention.

Postal Inspectors measure the effectiveness of their revenue investigations by the number of fraud schemes they identify and successfully resolve. In addition to stopping the scheme, the “resolution” may involve sending the perpetrator to jail, recouping lost funds if possible and, as appropri-

ate, collecting fines and penalties from the perpetrators. The chart below summarizes Postal Inspection Service revenue investigations this past fiscal year.

In FY 2001, Postal Inspectors concluded more than 13 major investigations involving the underpayment of postage by large-scale, commercial mailers. Postage fraud schemes are generally complex. Indeed, it can be difficult to understand them without extensive knowledge of postal operations—a problem when they are presented to a jury for prosecution. In this respect, the past fiscal year has been noteworthy, with juries returning a large number of criminal convictions. Further, Postal Inspectors presented to civil prosecutors an unusually high number of cases related to fraud by third-party mailers. All of the cases were successfully argued by prosecutors, resulting in substantial settlement agreements and severe penalty assessments.

An especially significant victory in FY 2001 was a four-year investigation by Postal Inspectors of 13 officers and employees of the largest mail preparation company in the New York area. Two

principals of the company were found guilty following a three-month jury trial that ended in July 2001, and a third principal pled guilty shortly after the trial began. Up to \$40 million of what was identified as the proceeds of their

Revenue Investigation Results in FY 2001

Criminal cases	315
Criminal convictions*	86
Civil cases presented	12
Civil cases resolved*	12
Amount ordered or agreed to be paid as a result of a civil prosecutive action*	\$5.9 million
Voluntary restitution*	\$33,147
Court-ordered restitution—criminal*	\$9.3 million

*May be related to cases from prior reporting periods.

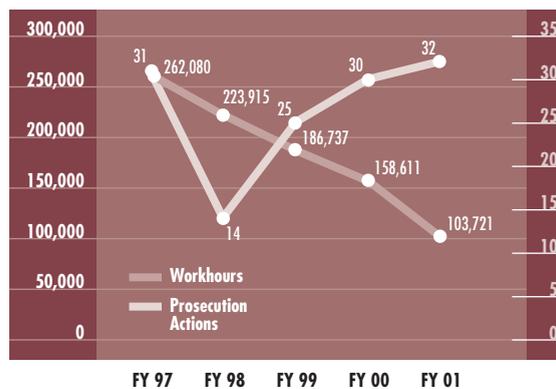
illegal activities may be subject to forfeiture. Among other allegations, the defendants were charged with underreporting 208 million pieces of First-Class Mail, resulting in losses of more than \$20 million to the Postal Service.

The defendants operated a mail sorting company that processed 2 million pieces of mail daily for customers in the New York metropolitan area. Postal Inspectors found the defendants had been cheating the Postal Service—and their own customers—through a number of fraudulent practices.

Customers paid the company to sort their mail by ZIP Code and apply computer-readable barcodes, allowing them to receive reduced postage rates. But Postal Inspectors discovered the company had submitted false mailing statements to the Postal Service, underreported the quantity of mail it submitted to the Postal Service, knowingly used broken meters that printed postage free of charge, overbilled customers for postage and bribed other customers so they would “overlook” inflated mail invoices. Seven other defendants, including a postal employee, pled guilty to charges of mail fraud and racketeering, another is awaiting trial and a ninth suspect is still at large. Each defendant faces a maximum sentence of 20 years or more in prison. Additional examples of revenue investigations conducted by Postal Inspectors in FY 2001 follow.

◆ The owner of a Chicago-area presort bureau was sentenced to prison following a lengthy investigation. Postal Inspectors determined he had underreported the amount of mail he processed by manipulating the software used with his sortation equipment, and altered the supporting documents presented to the Postal Service in order to claim reduced postage rates. Both the owner and company were ordered to pay restitution of

2001 Revenue Investigation Convictions & Civil Cases: Workhours vs Results



Workhours are down, but results are up as Postal Inspectors focus their efforts on the most serious schemes impacting postal revenues.

\$346,000. The owner paid an additional \$30,000 in criminal fines and was sentenced to one year in prison. The company was sentenced to five years’ probation and ordered to pay a criminal fine of \$210,000. A companion civil judgment required the owner and the company to pay a penalty of \$173,000.

◆ The owner of a direct-advertising company in Los Angeles pled guilty to defrauding the Postal Service of more than \$650,000 in postage. Over the course of several years, Postal Inspectors found he had routinely submitted false postage statements indicating his mail had been pre-paid with stamps. The owner was sentenced to 21 months in prison and ordered to pay \$562,833 in restitution and a \$40,000 fine.

◆ Presort bureaus in Birmingham, AL; Louisville, KY; and San Juan, PR, reached settlement agreements with the government totaling \$415,000 after Postal Inspectors demonstrated the mailers had lied about postage discounts they claimed and the number of pieces they mailed. In a case in Reading, PA, the owners of a presort bureau agreed to a lump-sum payment to the government of \$3.25 million after Inspectors uncovered their postage fraud scheme. In each instance, the Postal Service’s legal counsel worked with the U.S.

Attorney’s Office in finalizing the settlements and drafting the agreements, ensuring that losses and penalties were recovered. Finally, the manager of a Dallas-area presort bureau was sentenced to five years and six months in prison after Postal Inspectors proved he had defrauded the Postal Service, as well as his employer. He was ordered to pay in excess of \$5 million in restitution, the majority of which will go to the Postal Service.

◆ Special Periodicals rates are granted for publications that meet strict eligibility requirements. When a mailing fails to meet the standards and there is evidence the mailer knowingly failed to comply, sterner penalties apply, including the possibility of multiple damages and criminal charges. Postal Inspectors arrested the publisher and part-owner of a New York-based magazine for misleading both the U.S. Postal Service and the magazine’s advertisers. He was charged with mail fraud for providing false information to justify lower postage and for deceiving the magazine’s advertisers, who paid higher ad rates after he misled them about the magazine’s readership.

Embezzlements

Employee embezzlements unfortunately occur in all businesses. Postal Inspectors have uncovered a range of such schemes by postal employees: failing to report postal retail sales and using the cash for personal expenses; delaying the reporting of postal sales to fund personal, short-term loans; stealing postal stamps, retail products or packaging products; and covering shortages in postal funds by submitting bogus reimbursements for nonexistent or inflated business expenses.

During FY 2001, the Postal Service deployed point of service (POS One) systems to more than 9,000 postal retail units; concurrently, the units began using Segmented Inventory Accountability (SIA) for their financial operations. The sites included Postal Retail Stores that operate under unit, or shared, accountability and traditional retail units where clerks had individual accountability. Approximately 25 percent of postal retail units now use POS One systems and SIA financial procedures; these units are responsible for about 60 percent of postal “walk-in” revenue.

Embezzlements that occur at retail stores and other SIA offices are more difficult to investigate. They are more labor-intensive and require more sophisticated technology than those at post offices where clerks have separate accountabilities.

Postal Inspectors conducted 557 embezzlement investigations during the past fiscal year and identified \$4.8 million in postal losses. Examples of Inspectors’ casework in this area during FY 2001 are summarized below.

◆ A Washington, DC, window unit supervisor was sentenced on April 4, 2001, to 30 months’ imprisonment and three years’ supervised release; he was also ordered to enter treatment programs for alcohol and gambling addictions, and to pay restitution of \$120,622 and a special assessment of \$1,400. Postal Inspectors proved he failed to properly account for meter-setting funds on daily financial statements and accounting records. When he prepared daily close-out statements, he included customers’ checks in the bank deposit, but removed an equivalent amount of cash for his own use.

◆ A supervisor in Ft. Worth, TX, was sentenced to 15 months’ imprisonment and three years’ supervised release, with \$137,785 in restitution. Postal Inspectors found she had directed her clerks to issue postal money orders to

fake companies for postage meter refunds. She either cashed in the refunds or deposited them to her bank account.

◆ A window clerk in Philadelphia was sentenced on June 21, 2001, to four months’ home confinement with electronic monitoring, four years’ probation and restitution of \$17,571. The clerk failed to account for the full face value of 29 postal money orders she had issued. Postal Inspectors determined she had issued the money orders in one amount, discarded or destroyed the corresponding vouchers and submitted facsimile vouchers for lower amounts. She issued the money orders to herself or her creditors.

◆ A San Jose, CA, tort claims coordinator was sentenced to one year of home detention, three years of supervised probation and restitution of \$67,946. Postal Inspectors proved he had approved false accident claims, had tort claim checks issued to fictitious businesses and had checks made out to people he had recruited to file the false claims.

◆ A postmaster in North Carolina signed a plea agreement on March 7, 2001, pleading guilty to one count of misappropriating postal funds and agreeing to pay the Postal Service \$151,907. An Inspection Service investigation showed that when his customers submitted trust fund payments and presented bulk mailings on the same day, the postmaster kept their money and sent the mailings for free. He included the checks with his bank deposits, but removed an equivalent amount of cash or issued himself postal money orders.

◆ A postmaster in New York was sentenced in March 2001 to 18 months’ imprisonment and three years’ supervised release. He was also ordered to pay restitution of \$271,863 to the Postal Service and attend Gamblers Anonymous meetings. Postal Inspectors determined he had embezzled postal

funds for the past five years by underreporting postage sales.

◆ A window and vending clerk in New Jersey was sentenced on March 22, 2001, to one year in prison, three years’ probation and restitution of \$215,994 for embezzling postal funds. While working the retail counter at the main post office and one of its branches, the clerk failed to remit postage sales from vending machines he serviced, and he underreported sales. He moved stamp stock from one accountability to another to cover shortages.

◆ Postal Inspectors determined that the former postmaster of Moorefield, WV, had been depositing customers’ checks for bulk mail payments to the bank, but was removing an equal amount of cash for his own use. The former postmaster was convicted of embezzling public money and was sentenced in September 2001 to more than two years in prison and three years’ supervised release. At sentencing, the former employee presented to the court a check for \$84,678, representing the sale of his Myrtle Beach, SC, condominium, which he had purchased with the embezzled funds.

Fraudulent Workers’ Compensation

Compensation and medical benefits paid to postal employees who sustain injuries while on duty are a major expense for the Postal Service, which is responsible for funding workers’ compensation benefits. The Postal Service has accrued approximately \$5.8 billion in future liability for workers’ compensation claims since its reorganization in 1971.

The Postal Service fully supports the workers’ compensation program; however, a small percentage of postal employees and medical providers abuse the system, causing the Postal Service to incur millions of dollars each year in



A former letter carrier in Toledo, OH, who was on total disability, claimed he could not lift anything weighing over 10 pounds or stand on concrete, and must nap four hours every day. Postal Inspectors, however, found he had misled even his physicians as to his true physical abilities. Surveillance tapes and other evidence submitted by Inspectors revealed the former carrier had been power-lifting weights of 400 pounds and more at various gyms since 1987. He worked out an average of five to six times a week and was known to enter power weight-lifting competitions. The former carrier was sentenced in May 2001 to two years in prison and ordered to pay restitution of \$190,647. The ruling was significant, because the judge stated it was the employee's responsibility to advise his physician of improvements in his condition. Future cost savings to the Postal Service totaled \$420,617.

chargebacks for fraudulent claims and enforcement costs.

As a proactive measure to identify and eliminate fraudulent claims earlier in the claims process, Postal Inspectors' efforts this past fiscal year emphasized continuation-of-pay (COP) investigations. U.S. Postal Inspection Service investigations in FY 2001 resulted in \$93.8 million in long-term, cost-avoidance savings and another \$5.5 million in COP cost savings, totaling \$99.2 million in cost savings for the Postal Service. As a result of Inspectors' work, there was a 30 percent increase in COP cost savings from FY 2000 and a 24 percent increase overall in identifications of employees defrauding the workers' compensation program.

The Postal Inspection Service initiates criminal investigations when it suspects individuals of defrauding the Federal Employees' Compensation Act

(FECA), helping to safeguard Postal Service expenses. It also refers to the Postal Service any matters that may require administrative action. Inspectors worked closely with Injury Compensation offices to flag potentially fraudulent claims. The Postal Inspection Service assumed full oversight and responsibility for the Contract Fraud Analyst Program in FY 2000, which provides contract fraud analysts to assist Inspectors in investigating suspect claims.

During the course of their investigations this past fiscal year, Inspectors identified 403 individuals for defrauding the workers' compensation program and arrested 40 employees for workers' compensation fraud.

Employment Fraud

Postal Inspectors primarily seek prosecution in workers' compensation fraud cases, as it is the best deterrent

and prevents the resumption of benefit payments. By law, future payments are barred to anyone convicted of workers' compensation fraud.

Prosecution generally is based on showing that the allegedly disabled claimant is receiving outside earnings and failing to report them to the Department of Labor (DOL). The following paragraphs highlight examples of court actions that occurred as a result of Inspection Service investigations in FY 2001.

◆ A Postal Inspection Service investigation revealed that a former clerk in Millington, TN, had misrepresented her physical abilities and failed to report to DOL her earnings as a domestic worker in order to claim workers' compensation benefits. She was sentenced on March 16, 2001, to four months' imprisonment, four months' home detention, 40 hours' community service and restitution of \$9,501. Future cost savings to the Postal Service totaled \$492,609.

◆ A former motor vehicle service operator in Kearny, NJ, was sentenced on April 6, 2001, for stealing public money. Postal Inspectors proved that, while he owned and operated a horse stable, he misrepresented his physical abilities and failed to report his income to DOL as required. The claimant was sentenced to a year of incarceration, three years' supervised release and restitution of \$48,835. Future cost savings to the Postal Service totaled \$792,940.

◆ A former St. Paul, MN, letter carrier was sentenced in May 2001 to eight months' imprisonment with work-release privileges, three years' supervised release and restitution of \$55,434 for concealing his employment as a high school coach and misrepresenting his physical abilities. As a result of the investigation by Postal Inspectors, the Postal Service realized a future cost savings of \$684,625.

◆ A former letter carrier in New

Orleans was sentenced in October 2000 to three years' supervised probation and restitution of \$20,899. Postal Inspectors proved that, while the carrier claimed to be totally disabled as the result of injuries to her lower back, right hip, lower leg, foot and both knees, she had attended college classes full-time and received a Bachelor of Science degree. Inspectors also discovered that she was working as a beauty consultant at the same time, but did not report to DOL the job or her income. Future cost savings to the Postal Service totaled \$899,605.

◆ A former letter carrier in Houston was sentenced in February 2001 to 21 months' imprisonment and three years' supervised release. DOL placed her on the long-term benefits rolls after she claimed a back injury in 1995; she had been in two automobile accidents and claimed similar back injuries for each. A Postal Inspection Service investigation revealed that one accident occurred prior to her postal employment, but she failed to report it on her pre-employment application; the second accident occurred six days before her workers' compensation claim. Inspectors further proved she failed to report earnings from an upholstery business, was enrolled in college and was receiving other government subsidies, such as food stamps and Aid to Families with Dependent Children. Future cost savings to the Postal Service totaled \$369,330.

◆ A former mail handler in Massillon, OH, who had received compensation benefits for 31 years, was sentenced in February 2001 to one year in prison and three months' probation for making false statements to obtain fed-

At the request of the U.S. Postal Service, Postal Inspectors focused their investigations of workers' compensation fraud in FY 2001 primarily on continuation-of-pay cases to identify fraudulent claims before they entered the long-term benefits rolls. As a result, Postal Inspectors realized a 23 percent increase in COP cost savings over FY 2000, and a 20 percent increase in identifications of employees who defrauded the workers' compensation program.

eral employees' compensation and for mail fraud. Postal Inspectors found he had failed to report his income as a restaurant manager and had misrepresented his physical abilities. The investigation resulted in \$346,723 in future cost savings to the Postal Service.

Misrepresentations of Physical Abilities

Another form of fraud Inspectors uncov-

er in the workers' compensation program involves individuals who misrepresent the extent of their physical abilities. The efforts of Postal Inspectors in obtaining prosecution in these cases have been increasingly successful, as seen in the FY 2001 case activity that follows.

◆ A former postal custodian in Goshen, NY, was sentenced in October 2000 to three years' probation and restitution of \$20,000 after Postal Inspectors proved he was receiving workers' compensation benefits while misrepresenting his physical abilities. He claimed to be totally disabled due to a lower-back injury and could not perform his job, but, during the same period, he managed to shovel snow, help someone lift a dead deer on top of a van and clean and "detail" his automobile by hand. As a result of the investigation, the Postal Service realized \$561,720 in future cost savings.

◆ A former mail handler in Pensacola, FL, was sentenced in December 2000 to two years' imprisonment, three months' probation and restitution of \$76,462. After sustaining a back injury and undergoing surgery, the mail handler was placed on the periodic rolls. An investigation by Postal Inspectors disclosed that, although claiming he was totally disabled, the employee exceeded

his medical restrictions almost daily. His activities included extended periods of driving; repeated bending, stooping, twisting and reaching; lifting a lawn mower onto the bed of his truck; and reeling in large fish on a deep-sea fishing expedition. As a result of Postal Inspection Service efforts, the Postal Service realized a future cost savings of \$672,944.

◆ In March 2001, a former letter carrier in Atlanta, GA, was sentenced to six months in prison, three years' probation and two months' home detention. The carrier had been on the periodic rolls since 1994 for a traumatic wrist injury and carpal tunnel damage to her right wrist in 1995. A referral from a home visitation team led to an investigation by Postal Inspectors and Health and Human Services agents, who revealed she was misrepresenting her physical activities and receiving Social Security benefits for herself and a child for the alleged injuries. The investigation resulted in court-ordered restitution of \$45,153; future cost savings to the Postal Service totaled \$840,706.

◆ An Inspection Service investigation of a former letter carrier in St. Croix, U.S. Virgin Islands, revealed that, although he claimed he was unable to return to his job because of a back injury, he was able to perform heavy construction work at home, mow his lawn and work on his car. Postal Inspectors saw him using a cane when he visited his doctor. The man made false claims to his physician, the Postal Service and DOL. He was sentenced in July 2001 to 45 months in prison, two years' supervised release and restitution to DOL of \$81,899. Future cost savings to the Postal Service totaled \$442,900.