

Revenue and Asset Protection

Postal Inspectors determine which products and sources of revenue pose the highest financial risk to the Postal Service and target their investigations accordingly.

Revenue Investigations

Postal Inspectors determine which products and sources of revenue pose the highest financial risk to the Postal Service and target their investigations accordingly. For the

past several years, postage fraud schemes involving large-scale business mailers have been a priority, especially mailers that use metered postage and those that claim presorted discount rates of postage.

Postal Inspectors measure the effectiveness of their revenue investigations by the number of postage 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 appropriate, collecting fines and penalties from the perpetrators. The chart at right summarizes Postal Inspection Service revenue investigations this past fiscal year.

In FY 2002, Postal Inspectors concluded more than eight major investigations involving the underpayment of postage by large-scale, commercial mailers. Postage fraud schemes are generally complex because of the many postal operations and postage rate structures that must be understood, and can pose a problem for prosecutors trying to present the case to a jury. In this respect, the past fiscal year has been noteworthy.

In a significant case that concluded in July 2002, a four-year investigation by Postal Inspectors of the largest mail preparation company in the New York area resulted in sentences for three owners and four managers of American Presort, Inc. (API) following their convictions in 2001 for racketeering and mail fraud. One of the owners, who pled guilty shortly after the trial commenced in 2001, was sentenced to 42 months in prison after he signed a forfeiture agreement for \$5 million. A second owner was sentenced to 51 months in prison and also signed a forfeiture agreement for \$5 million, and a third owner was sentenced to 60 months in prison. He refused to sign a forfeiture agreement and is liable for the entire judgment of \$20.7 million. Four managers involved in the scheme received prison sentences ranging from 30 to 37 months, and each was ordered to pay restitution of \$17 million. Five cooperating witnesses were sentenced to probation and community service. An in-depth story of this investigation is featured in the special insert at right.

Further examples of revenue investigations conducted by Postal Inspectors in FY 2002 follow.

■ A civil complaint was filed against the owner of a presort company in Dallas, Texas, as a result of a previous Postal Inspection Service criminal investigation. The company’s operations manager was convicted in 2001 of defrauding the U.S. Postal Service of more than \$6 million in postage during a period of 19 months. The

civil complaint filed in 2002 alleged the company contributed to the postage fraud when the owner knowingly hired a felon to oversee his mailing operation. Further proceedings are pending.

■ The publisher of a national magazine was convicted in federal court for falsifying information to the Postal Service to get reduced mailing rates and attract advertisers. The conviction is significant, in that frauds of this nature are difficult to uncover, and it is often equally difficult to prove intent; it is also only the second criminal conviction of a Periodicals publisher in the past 10 years. Postal Inspectors learned of the violation by accessing the Web site of an independent audit firm responsible for reviewing the activities of similar publications.

■ After Postal Inspectors arrested the supervisor of a Washington-area letter shop, she was convicted of defrauding one of its mailing customers, the Democratic National Committee (DNC). The letter shop contracted with the DNC to mail almost 550,000 solicitations during the 2000 presidential campaign. A Postal Inspection Service investigation revealed the letter shop only prepared and mailed about four percent of what it had been paid to do.

■ A Postal Inspector's arrest of a suspect outside a Palm Springs, California, Post Office in January broke open an investigation of an organized ring that had negotiated or attempted to negotiate \$220,000 worth of counterfeit



Revenue Assurance Analyst Lois Ress of the Greater Indiana District was recognized by the Postal Inspection Service for her role in identifying a case of postage fraud. In 2001, she alerted Postal Inspectors about a large-scale mailer's suspicious business practices. When the mailer learned he was under investigation and facing a potential False Claims Action suit, he stopped the scheme and paid more than \$600,000 as part of a pre-litigation settlement. Inspectors presented Ms. Ress with a plaque and certificate of appreciation for her contributions to this case and others.

checks throughout Southern California. The ring's success stemmed from its use of "borrowed" names and addresses of legitimate businesses to lull postal clerks into accepting high-dollar business checks for stamp purchases. A legitimate courier service was often used in the ruse, further insulating the suspects from detection. Area post office losses attributed to the ring total \$143,000; the same ring is suspected of orchestrating another \$200,000 in losses in that area from another scheme. The ring operated successfully for months and evaded capture until January 2002, when a Palm Springs postal clerk became suspicious and alerted Postal Inspectors from the Southern California Division. Inspectors traced the courier to one of the ring's fringe members. Cooperation from the suspect has already led to the identification of a key member of the ring. The investigation is continuing.

■ The U.S. Attorney's Office in the Northern District of California finalized a False Claims Action in June against a prominent presort bureau, the PSI Group. Pursuant to the agreement, PSI will pay almost \$1 million after claiming it had sorted its mail to the greatest extent possible and was entitled to postage refunds from the Postal Service under the Value-Added Refund program. An investigation by

Revenue Investigation Results in FY 2002

Criminal cases	260
Criminal convictions*	43
Civil cases presented	1
Civil cases resolved*	7
Amount ordered or agreed to be paid as a result of a civil prosecutive action*	\$1.5 million
Voluntary restitution*	\$10 million
Court-ordered restitution—criminal*	\$91.4 million**

* May be related to cases from prior reporting periods.

** \$90.8 million is related to the American Presort, Inc. case

Inspectors revealed the mailer had not, in fact, completed all of the work-sharing it claimed, and the Postal Service would have to perform additional, unanticipated processing before the mail could be properly transported and delivered. Inspectors found the mailer altered computer files to deceive postal acceptance clerks, avoided detection by hiding unsorted mail in late-night dispatches—when verifications were least likely to be performed, and pressured clerks into notifying PSI in advance which portion of the mail would be sampled for verification. The False Claims Action received considerable media attention in the San Francisco area in July.

■ For almost a year, post offices throughout Northern California were victimized by a scheme involving counterfeit checks. Inspectors identified more than 180 checks that were allegedly written and presented by two co-conspirators. Two suspects were apprehended and charged in June



Inspectors in New York received a tip from postal officials that led to the March arrest of a mailer accused of counterfeiting metered postage after he forged one of the new information-based indicia products. Postal officials noticed the indicia date was well beyond the date of mailing, and the forged postage was used to mail Express Mail pieces from the suspect's small, home-based business. The FBI participated with the Inspection Service in searching the man's place of business, as he was also a child pornography suspect. The search revealed evidence of both his counterfeiting scheme and his production of child pornography.

2002 after fleeing California and leading Postal Inspectors on a chase that extended through Washington State, South Dakota, and Nebraska.

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.

Postal Inspectors conducted 605 embezzlement investigations during the past fiscal year and identified more than \$4.9 million in postal losses. Examples of Inspectors' casework in this area during FY 2002 are summarized below.

■ A former window clerk from the Schiller Park, Illinois, Post Office was sentenced on July 11 to one year in prison, three years' probation, and \$122,454 in restitution for misappropriating postal funds. Postal Inspectors determined the clerk underreported postage sales and failed to properly account for customer meter funds. The clerk confessed to having a gambling problem and had been embezzling postal funds for years to cover his losses.

■ After an investigation by Postal Inspectors, the former postmaster of Addis, Louisiana, was sentenced on July 11, 2002, to one year in prison, three years' probation and \$77,471 in restitution for stealing postal funds. The postmaster failed to remit money order, postage, and vending sales and posted fraudulent or inflated disbursements to her Statements of Account. The postmaster first claimed her office had been robbed at gunpoint several times and that she never reported it, and covered up the losses, because the robbers threatened to kill both her children and grandchildren if she told authorities. When

presented with the results of the investigation, the postmaster could not explain the financial discrepancies.

■ After an investigation by Postal Inspectors, a former postmaster “relief” at the Dewitt, Illinois, Post Office pled guilty to a three-count indictment for embezzling postal funds. The former employee, who also worked at the Lane and Wapella Post Offices, imprinted postal money orders totaling \$121,800 at the three offices without submitting payments. A co-conspirator pleaded guilty to a two-count indictment in July 2002 after admitting to cashing postal money orders and retaining \$75,000 of the proceeds.

■ A former remote encoding center manager, who had worked at postal sites in Antioch and Chattanooga, Tennessee, and Bowling Green, Kentucky, was sentenced to 10 months in prison and two years’ supervised release and ordered to pay restitution of \$94,794 for submitting false information on travel vouchers. The former manager reported personal travel expenses, travel expenses for relatives, vacation expenses, bogus travel and relocation expenses, and duplicate claims for miscellaneous expenses as his official travel expenses. Postal Inspectors also determined he had forged the signature of a non-existent manager as the approving official.

■ A former Missouri postmaster was sentenced to six months of community confinement, five years’ probation, and \$88,682 in restitution for embezzling money order funds and committing mail fraud. While serving as postmaster or officer in charge at five Missouri post offices, the former employee issued money orders, which she reported as “official disbursements,” to cover personal expenses and her daughter’s tuition at a local beauty college. Her restitution includes a payment of more than \$34,000 to the Missouri Chapter of the National Association of Postmasters of the United States (NAPUS). As the elected secretary and treasurer, she wrote and mailed NAPUS checks to cover personal expenses.

■ A former sales and service associate of the Derry, New Hampshire, Post Office was sentenced to one year of probation and \$1,266 in fines and restitution for stealing postal funds. Postal Inspectors determined he was responsible for approximately \$25,000 in Segmented Inventory Accountability losses. He failed to enter numerous postage transactions in POS ONE (a “point of sale,” automated accounting system) and falsified other transactions by understating postage and pocketing the difference between the amounts he reported and what he collected from customers.

■ The last two defendants in a \$64,554 money order embezzlement, directed by a former military postal clerk of the Camp Pendleton Marine Corps Base Post Office, were

sentenced in January and March 2002 in a California federal court. Postal Inspectors determined the defendants had assisted the clerk by cashing roughly \$60,000 in money orders which had been reported as lost or stolen and leaving no record of the sale. The former clerk imprinted the money orders for \$600 each and hired the defendants to cash them; he paid them with methamphetamines. Each defendant was sentenced to five years’ probation, and they were ordered to pay a total of \$59,354 in restitution.

■ On May 14, 2002, two former sales and service associates from the Horton Plaza Retail Postal Store at San Diego, California, were each sentenced to one year of probation and total restitution of \$11,000 for embezzling postal funds. Postal Inspectors disclosed the former associates had failed to enter postage sales into POS ONE, undervalued sales they did enter, and voided legitimate transactions. The funds were converted for their personal use.

■ The former officer in charge of the Omega, Oklahoma, Post Office was sentenced on May 7, 2002, to 15 months’ imprisonment, three years’ probation, 104 hours of community service, and restitution of \$43,718 for embezzling postal money order and stamp funds. The former employee issued \$23,638 in money orders without receiving payments and deposited them into her own checking accounts. She also failed to deposit into postal bank accounts approximately \$5,800 worth of stamp sales. Postal Inspectors discovered the scheme when they investigated a fire at the office that occurred on a Sunday, the day before the office was to be transferred to a new officer in charge. The fire caused approximately \$13,000 in property damage and destroyed all financial records and main stamp stock.

■ On May 31, 2002, a former sales and service associate at the Lincolnia Station in Alexandria, Virginia, was sentenced to one year in prison and three years’ probation and ordered to pay restitution of \$30,800 for his role in a conspiracy to negotiate stolen postal money orders. Postal Inspectors discovered that money orders missing from the station had been imprinted for \$700 with an inkjet printer and were cashed in Virginia and Alabama. The former employee used 44 of the money orders to pay child support. Two co-conspirators were previously sentenced.

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



A full-time city letter carrier in Severna Park, Maryland, reported injuries to his hip, back, and left leg after falling on ice while delivering mail in January 1999. He began receiving workers' compensation benefits in February 2001 following the second of two surgeries, telling his postal supervisor that his physical activity was restricted to "bed rest and doctor visits" and his estimated return to work date was "unknown." However, based on a tip that the carrier was refurbishing old houses, Postal Inspectors began a surveillance of his activities in April and May 2001. They videotaped the "disabled" carrier driving; toting paint, sawhorses, a ladder, and a toolbox and loading them into his truck; removing, repairing, and reinstalling doors on an aluminum shed; operating a gas-powered grass trimmer; and spreading grass seed on his lawn. After seeing the tapes, the carrier's physician stated he was unaware of the carrier's ability to perform any of the activities and signed a medical release to return him to full duty. The carrier was terminated from the Postal Service in November 2001, and the Postal Service realized a future cost-savings of \$711,313 as a result of the Inspection Service investigation.

has accrued approximately \$6.5 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 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 continu-

ation-of-pay (COP) investigations. U.S. Postal Inspection Service investigations in FY 2002 resulted in \$102.3 million in long-term, cost-avoidance savings and another \$6.1 million in COP cost savings, totaling \$108.4 million in cost savings for the Postal Service. As a result of Inspectors' work, there was a 10.6 percent increase in COP cost savings from FY 2001.

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 work closely with Injury Compensation offices to flag potentially fraudulent claims. The Postal Inspection Service also has oversight and responsibility for the Contract Fraud Analyst Program, which provides contract fraud analysts to assist Inspectors in investigating suspect claims.

During the course of their investigations this past fiscal year, Postal Inspectors identified 380 individuals for defrauding the workers' compensation program and arrested 45 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. The following paragraphs highlight examples of court actions that occurred as a result of Inspection Service investigations in FY 2002.

- On November 2, 2001, a former Van Nuys, California, mail handler, who had relocated to Chicago, was sentenced in district court after pleading guilty to mail fraud. The

former employee claimed he had become disabled by hernias suffered during his 90-day “casual” (temporary) appointment. Postal Inspectors found he was running his own real estate business, had a construction job, and worked as a piano teacher while claiming to be totally disabled, and failed to report either his employment or his ability to work to the Department of Labor, as required. He was sentenced to five years’ probation and ordered to pay \$15,022 in restitution; the Department of Labor also declared an overpayment of \$24,308. The Postal Service realized a future cost savings of \$194,267 as a result of the investigation.

■ A former Cleveland Heights, Ohio, letter carrier was sentenced in January 2002 to eight months in prison and ordered to pay \$72,538 in restitution for making false statements to obtain federal employees’ compensation. She claimed she sustained a traumatic injury in 1995 to her right elbow, shoulder, and hip and had been totally disabled since 1996 from “frozen shoulder” syndrome. An Inspection Service investigation revealed that, during the time of her alleged disability, the claimant worked at various department stores, graduated from modeling school, and entered modeling competitions; she was also an energetic gardener and performed her own lawn maintenance, lifting and moving objects and performing other tasks inconsistent with her alleged injuries. In one instance, Inspectors saw the former carrier pull a lawn mower cord 76 times while trying to get it to start and, after a doctor’s visit (during which she claimed she was in constant pain), spending the rest of the day at an amusement park. Her physician later confirmed the claimant was a fraud and had misrepresented her condition. The Postal Service realized a future cost savings of \$827,320 as a result of the investigation.

■ A former letter carrier in Haddonfield, New Jersey, received a 15-month prison sentence with three years’ probation and \$115,619 in restitution in July 2002 for making false statements to obtain federal employees’ compensation. He had claimed he was totally disabled as the result of a 1996 work-related back injury, but Postal Inspectors found that, during the time of the alleged disability, the carrier operated a home-improvement business for six years and falsified statements to the Department of Labor about his work and income. Inspectors also revealed he had lied to his physicians and the Postal Service after they caught him performing rigorous physical activities, such as removing and replacing roofs on a house and a garage. As a result of Inspection Service efforts, the Postal Service achieved a future cost savings of \$669,833.

■ On July 17, 2002, Postal Inspectors arrested a processing and distribution center clerk in Los Angeles for

workers’ compensation fraud after she fraudulently accepted compensation benefits for three years due to an alleged back injury. A joint investigation by the Postal Inspection Service and the California Department of Insurance disclosed that, during the same period, the clerk worked as owner and operator of a day care business. She was also collecting fraudulent insurance benefits from a private disability company, along with workers’ compensation benefits from the Department of Labor. Prosecution is pending.

■ A former postal clerk in Landisville, New Jersey, was sentenced to three months’ probation and \$25,000 in restitution for making false statements to obtain federal employees’ compensation. The employee claimed total disability as the result of a 1985 work-related anxiety disorder. An Inspection Service investigation disclosed that, although claiming to be unable to work, the former employee operated a kennel and falsified statements to the Department of Labor about her job and income. As a result of Inspection Service efforts, the Postal Service achieved a future cost savings of \$654,353.

■ On July 22, 2002, a New London, Connecticut, postal clerk was sentenced to six months’ home detention, three months’ probation, and \$54,800 in restitution for workers’ compensation fraud. The clerk claimed she suffered from a knee injury in 1998 that rendered her totally disabled, but Inspectors discovered she worked seven days a week as a business manager for a family kennel and did not report her income to the Department of Labor. As a result of the investigation, the Postal Service achieved a future cost savings of \$560,090.

Misrepresentations of physical abilities

Another form of fraud Inspectors uncover 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 summaries below.

■ A former letter carrier in Waconia, Minnesota, was sentenced in March 2002 to six months of electronic monitoring and home detention, five years’ probation, and court-ordered restitution of \$60,000 after pleading guilty to mail fraud. The former carrier claimed a work-related back injury in May 2000, which was accepted by the Department of Labor. An Inspection Service investigation, however, disclosed the claimant had lied about his pre-employment medical history: He had pre-existing back problems and carpal tunnel syndrome, and suffered from alcohol abuse and other conditions. While claiming total disability, Inspectors saw him driving for extended periods, mowing

his lawn, and operating a leaf blower and weed trimmer; he was also seen carrying five-gallon buckets of asphalt and applying a sealant to his driveway. The claimant rejected limited-duty job offers from the Postal Service, stating he was instructed by doctors to “live my life as if I were in a body cast” with “no walking, no running, no nothing...” In addition to workers’ compensation, the claimant collected benefits from the Veterans Administration for an obsessive-compulsive disorder and from the Social Security Administration for a back injury. The investigation resulted in a future cost savings of \$711,316 for the Postal Service.

■ On March 29, 2002, an arbitration decision upheld the removal of a Franklin Park, Illinois, letter carrier. The carrier worked in limited-duty capacity for the Postal Service as a result of a back injury which had occurred two years earlier. While receiving compensation benefits, he worked as a service technician without reporting his income or ability to work to the Department of Labor, as required. As a result of the investigation, the Postal Service realized a future cost savings of \$996,792.

■ A former clerk in Rock Island, Illinois, was sentenced on January 18, 2002, to one year and a day of imprisonment, three years’ supervised release, and \$82,769 in restitution for making false statements to obtain federal employees’ compensation. After the former employee claimed a neck-and-shoulder injury in 1978, she was placed on long-term disability by the Department of Labor. She continued to collect total disability for 23 years, stating she

was unable to run or walk for more than 50 feet at a time, carry either a gallon of milk or her purse, or bend or kneel without help. Inspectors conducted a surveillance of the clerk for several years and determined her claims were fraudulent. As a result of Inspection Service efforts, the Postal Service achieved a future cost savings of \$682,082.

■ A former letter carrier from Atlantic Beach, Florida, was sentenced on March 21, 2002, to two years in prison, three years’ supervised release, and restitution of \$92,540 for workers’ compensation fraud. A former U.S. Marshall, the claimant alleged he suffered an asthma attack eight hours after his tour concluded as a result of dust he was exposed to at the post office. He also claimed he developed a psychological condition from his on-the-job injury and was unable to work at any post office. Postal Inspectors disclosed the man was routinely exposed to gases, fumes, dust, and dog hair at his home with no adverse effects and, in fact, smoked up to two packs of cigarettes a day. All of his physicians subsequently agreed the former carrier had misrepresented his condition. As a result of Inspection Service efforts, the Postal Service achieved a future cost savings of \$540,477.

Civil prosecutions

Affirmative Civil Enforcement (ACE) is an effective tool used by investigative agencies and criminal prosecutors to ensure the fullest recovery of losses for the government. ACE allows the government to fashion settlements that address unique law enforcement issues that can arise in complicated fraud cases. ACE also grants triple damages and mandatory penalties for false claims, as shown by the case that follows.

On October 2, 2001, a \$60,000 judgment was entered in favor of the United States as a result of an Affirmative Civil Action. Postal Inspectors proved the daughter of a deceased claimant had completed forms indicating her mother was alive and in her custody, allowing the daughter to collect survivor benefits for approximately eight years. In addition to the civil action, the daughter is now serving a sentence of five years’ probation and has paid \$182,121 in restitution following a criminal conviction for stealing public funds.



Photo by Postal Inspector Allen L. McHenry