



Office of Inspector General | United States Postal Service

## Audit Report

# Negotiated Service Agreement – Contract [REDACTED]

Report Number 20-233-R21 | May 13, 2021



# Table of Contents

- Cover
- Highlights..... 1
  - Objective ..... 1
  - Finding..... 1
  - Recommendations..... 2
- Transmittal Letter ..... 3
- Results..... 4
  - Introduction/Objective ..... 4
  - Background..... 4
  - Finding #1: Incorrectly Priced Packages..... 5
    - Recommendation #1..... 6
    - Recommendation #2: ..... 6
  - Management’s Comments..... 6
  - Evaluation of Management’s Comments ..... 6
- Appendices ..... 7
  - Appendix A: Additional Information..... 8
    - Objective, Scope, and Methodology ..... 8
    - Prior Audit Coverage ..... 9
  - Appendix B: Management’s Comments..... 10
- Contact Information ..... 12

# Highlights

## Objective

Our objective was to determine mailer compliance with Negotiated Service Agreement (NSA) provisions and evaluate the U.S. Postal Service's oversight of NSA Contract [REDACTED]. We selected this NSA based on the mailer's fiscal year (FY) 2019 volume and revenue.

An NSA is a contractual agreement between the Postal Service and a specific mailer, whereby the mailer receives customized pricing in exchange for meeting volume and using specific payment methods. The goal of using NSAs is to retain price-sensitive customers and encourage additional mail volume and revenue. While only a small fraction of Postal Service commercial package customers have NSAs, 40 percent of the Postal Service's 5.5 billion domestic package volume is mailed under these agreements.

The Postal Regulatory Commission (PRC) approves all NSAs. The PRC approved Contract [REDACTED] in FY 2018. This three-year NSA provided special pricing for the mailer's Priority Mail packages, Priority Mail Cubic packages,



and First-Class Package Service. Pricing under this contract is based on the customer's total volume of packages shipped in the previous quarter. Contract pricing is based on tiers, with each tier representing a minimum and maximum volume corresponding to specific price tables. The mailer agrees to ship a specified minimum volume of packages quarterly. The Postal Service has the right to revert to the most current Priority Mail Commercial Plus pricing and most current published First-Class Package Service commercial pricing in the subsequent contract quarter if the mailer does not meet these volumes.

The Postal Service provides several ways for commercial mailers to print postage and transmit shipping and payment information. This NSA specifies the customer will use either a PC Postage provider to print Postal Service shipping labels or the Postal Service's proprietary electronic verification system (eVS) through a third-party marketplace provider.

We reviewed this customer's NSA mail volume, pricing, and payment system from [REDACTED].

## Finding

The mailer was compliant with all agreement provisions we reviewed, including mail type, payment system, and volume commitments. In addition, the Postal Service provided adequate oversight of the NSA, which included quarterly business review meetings with the mailer to discuss contract performance, volume, and expectations.

However, we identified [REDACTED] of [REDACTED] packages ([REDACTED] that were mailed with an incorrect price or did not contain sufficient information to determine the correct price, such as a destination zone. These pricing errors totaled [REDACTED] from [REDACTED].

Of the total pricing errors, [REDACTED] occurred because the Postal Service provided incorrect quarterly pricing rates to the customer's PC Postage provider. The Postal Service did not receive all the customer's volume data in time to determine the correct quarterly price adjustment because of a timing delay between postal systems. The Postal Service recognized this error

and issued the customer a refund for the pricing discrepancy. During our audit, the Postal Service changed its processes to run volume reports seven days after the quarter close — versus five days — to account for future timing issues. However, automating such processes could reduce the risk of timing and manual process errors.

Other errors occurred because:

- An e-commerce platform charged incorrect prices for [REDACTED] mailings made during the period under review. Specifically, the customer was charged the commercial rate instead of the contract rate.
- The PC Postage provider did not update postage prices for [REDACTED] packages on time.
- The customer did not provide all necessary information to determine the correct price, such as the correct ZIP Code, for [REDACTED] transactions.

The Postal Service developed the Automated Package Verification (APV) system to automatically identify pricing errors, such as incorrect prices loaded by PC Postage providers and missing customer information. However, this system was [REDACTED].

We issued an audit report on the APV system in September 2019; the Postal Service expects to complete corrective actions for the issues we identified, including packages that [REDACTED]. Consequently, we will not make a recommendation related to APV. However, in the interim until APV can [REDACTED], the Postal Service should notify customers and their third-party PC postage or marketplace providers of the [REDACTED].

## Recommendations

We recommended management consider developing an automated process to update pricing information with customers and vendors to eliminate timing and manual processing errors and notify customers and third-party PC Postage and marketplace providers of the pricing differences for appropriate adjudication.

# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

May 13, 2021

**MEMORANDUM FOR:** SHAVON L. KEYS  
VICE PRESIDENT, SALES

A handwritten signature in black ink, reading "Amanda H. Stafford", is positioned above the printed name.

**FROM:** Amanda H. Stafford  
Deputy Assistant Inspector General for Retail, Delivery, and  
Marketing (Acting)

**SUBJECT:** Audit Report – Negotiated Service Agreement - Contract -  
[REDACTED] (Report Number 20-233-R21)

This report presents the results of our audit of the Negotiated Service Agreement -  
Contract [REDACTED]

We appreciate the cooperation and courtesies provided by your staff. If you have any  
questions or need additional information, please contact Janet Sorensen, Director, Sales,  
Marketing, and International, or me at 703-248-2100.

Attachment

cc: Postmaster General  
Corporate Audit Response Management

# Results

## Introduction/Objective

This report presents the results of our self-initiated audit of Negotiated Service Agreement (NSA) – Contract [REDACTED] (Project Number 20-233). Our objective was to determine mailer compliance with NSA provisions and evaluate the U.S. Postal Service’s oversight of the NSA Contract [REDACTED]. See [Appendix A](#) for additional information about this audit. We selected this NSA based on the mailer’s fiscal year (FY) 2019 volume and revenue.

## Background

NSAs are a contractual agreement between the Postal Service and specific mailers. An NSA provides the mailer with customized pricing based on volume commitments, with specified terms and conditions. NSAs may include modifications to current mailing standards and other postal requirements. The Postal Service also uses NSAs to retain price-sensitive customers amid increases in published commercial postage and shipping competition.

By law, the Postal Regulatory Commission (PRC) approves NSAs. Competitive products NSAs must generate enough revenue to cover the attributable costs<sup>1</sup> or those directly tied to fulfilling the product or service. The Postal Service must also demonstrate contribution to the Postal Service’s institutional costs<sup>2</sup> and that they are not subsidized by market-dominant products as a whole.

The PRC approved Contract [REDACTED] in FY 2018. This three-year NSA provided special pricing for the mailer’s Priority Mail packages, Priority Mail Cubic packages, and First-Class Package Service. Pricing under this contract is based on the customer’s total volume of packages shipped in the previous quarter. The contract pricing is based on tiers, with each tier representing a minimum and maximum volume corresponding to specific price tables. The mailer agrees to ship a specified minimum volume of packages quarterly. The Postal Service has the right to revert to the most current Priority Mail Commercial Plus pricing and most current published First-Class Package Service commercial pricing in the subsequent contract quarter if the mailer does not meet these volumes.

The Postal Service provides several ways for commercial mailers to print postage and transmit shipping and payment information. This NSA specifies the customer will use either a PC Postage vendor to print Postal Service shipping labels or the Postal Service’s proprietary electronic verification system (eVS), through a third-party marketplace provider.

PC Postage providers interface with the Postal Service’s National Meter Accounting and Tracking System (NMATS) database which tracks postage meter data. The Postal Service’s eVS is an electronic manifest mailing system which allows commercial mailers to print postage labels and transmit manifests with detailed shipping and payment information to the Postal Service. The Postal Service tracks the mailing data through the PostalOne! System, which provides an electronic link between the vendor’s mailing information and Postal Service’s business mail acceptance and induction processes.

Once NSAs are in effect, the Postal Service’s Sales organization manages the contracts by monitoring mail volume and other contract provisions. The Contract Administration team within the Field Sales Strategy and Contracts group produces a contract performance report monthly and shares it with the field account representative in Customer Account Management. The field account representative reviews the report and meets with the customer each month to discuss contract performance and any possible service issues. If there is a concern that the mailer is not going to meet the quarterly volume requirement, Contract Administration and the field account representative identify shortfalls in performance, discuss the issue with the mailer, and establish a timeline to achieve compliance.

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***“Once NSAs are in effect, the Postal Service’s Sales organization manages the contracts by monitoring mail volume and other contract provisions.”***

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<sup>1</sup> Attributable costs are direct and indirect Postal Service costs that can be clearly associated with a particular mail product. It is the sum of volume-variable cost-plus product-specific cost.

<sup>2</sup> Costs that cannot be directly or indirectly assigned to any mail class or product. They can be considered common or overhead costs needed for overall operations.

## Finding #1: Incorrectly Priced Packages

The mailer was compliant with all agreement provisions we reviewed, including mail type, payment system, and volume commitments. In addition, the Postal Service provided adequate oversight of the NSA, which included quarterly business review meetings with the mailer to discuss contract performance, volume, and expectations.

However, we identified [REDACTED] of [REDACTED] packages ([REDACTED] that were mailed with an incorrect price or did not contain sufficient information to determine the correct price, such as destination zone. These pricing errors totaled [REDACTED] from [REDACTED].

Of the total pricing errors, [REDACTED] occurred because the Postal Service provided incorrect quarterly pricing rates to the customer's PC Postage provider. As a result, the customer was moved in error from Tier 4 to First-Class Package Service pricing Tier 3. The Postal Service did not receive all the customer's volume data in time to determine the correct quarterly price adjustment because of a data transmission delay between Postal Service databases.<sup>3</sup> In July 2020, the Postal Service identified the pricing error, which it resolved by issuing a refund in October 2020.

During our audit, the Postal Service changed its processes to run volume reports seven days after the quarter close – versus five days – to account for future timing issues. The Postal Service also updated its Priority Mail Noncompetitive Purchase Request template to allow 30 days following a quarter to determine and update tier assignments.

Currently, monitoring volume data and a potential price change is a manual process between two groups in the Sales organization — Field Sales Strategy and Contracts and Solutions Development. Solutions Development reviews an Excel log file daily and implements any changes from Field Sales Strategy and Contracts after their review of mail volume. Some contracts only require an update of the price table's expiration date. However, when a price change is required, Solutions Development obtains the price table and loads it to the

Program Registration system. Automating this process would potentially reduce the risk of timing and manual process errors.

Other errors occurred because:

- An e-commerce platform charged the wrong rates for [REDACTED] packages made during the period under review. Specifically, the customer was charged the commercial rate instead of the contract rate.
- The PC Postage provider did not update the postage rates timely for [REDACTED] packages.
- The customer did not provide all necessary information to determine the correct price, such as the correct ZIP Code, for [REDACTED] transactions. As a result, there was not enough information to determine how the Postal Service calculated the postage rate.

*“Currently, monitoring volume data and a potential price change is a manual process between two groups in the Sales organization.”*

Table 1 identifies the incorrectly priced transactions.

**Table 1. Incorrectly Priced Transactions**

Reasons for Incorrect Prices	Number of Incorrectly Priced Transactions	Dollar Value
Data not transmitted timely	[REDACTED]	[REDACTED]
E-commerce platform charged published rate rather than NSA contract rate	[REDACTED]	[REDACTED]
PC Postage vendor did not update prices timely	[REDACTED]	[REDACTED]
Other <sup>4</sup>	[REDACTED]	[REDACTED]
<b>Total</b>	[REDACTED]	[REDACTED]

Source: PostalOne! and Customer Data Mart databases from [REDACTED]

<sup>3</sup> Data from PostalOne! and NMATS updates to the Management Operating Data System (MODS) which is used to report Postal Service customer revenue and volume performance.

<sup>4</sup> The category includes a combination of missing destination zones and missing tracking numbers.

The Postal Service developed the Automated Package Verification (APV) system to automatically identify pricing errors, such as incorrect prices loaded by e-commerce platforms or PC Postage providers and missing customer information. However, this system was [REDACTED]. We issued an audit report on the APV system in September 2019.<sup>5</sup> The Postal Service expects to complete corrective actions for the issues we identified, including packages that [REDACTED]. Consequently, we will not make a recommendation related to APV. However, in the interim, until APV can [REDACTED], the Postal Service should notify the customer and third-party PC postage and marketplace providers of the [REDACTED].

#### **Recommendation #1**

We recommend the **Vice President, Sales**, consider developing an automated process to update pricing information with customers and vendors to eliminate timing and manual processing errors.

#### **Recommendation #2:**

We recommend the **Vice President, Sales**, notify customers and third-party PC Postage providers of the pricing differences for appropriate adjudication.

## **Management's Comments**

Management agreed with the finding and recommendations.

Regarding recommendation 1, management will explore the feasibility of implementing a fully automated process to update pricing information. The target implementation date for this process is September 30, 2021.

Regarding recommendation 2, management will make third-parties and customers aware of overpayments for appropriate adjudication. The target implementation date for this process is May 31, 2021.

See [Appendix B](#) for management's comments in their entirety.

## **Evaluation of Management's Comments**

The OIG considers management's comments responsive to the recommendations in the report.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. All recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

<sup>5</sup> *Automated Package Verification Evaluation* (Report Number MS-AR-19-004, dated September 18, 2019).



# Appendices

Click on the appendix title below to navigate to the section content.

- Appendix A: Additional Information ..... 8
  - Objective, Scope, and Methodology ..... 8
  - Prior Audit Coverage ..... 9
- Appendix B: Management’s Comments ..... 10

# Appendix A: Additional Information

## Objective, Scope, and Methodology

Our objective was to determine whether the mailer was in compliance with NSA provisions and evaluate the oversight of the agreement. To accomplish our objective, we:

- Obtained and reviewed the current NSA for Contract [REDACTED] and the PRC order authorizing the NSA to determine contract products, terms, and requirements.
- Interviewed Postal Service officials to discuss the NSA process, including contract performance monitoring.
- Analyzed mailer data from the following systems: MODS, Product Tracking and Reporting,<sup>6</sup> NMATS,<sup>7</sup> and the eVS.
- Obtained and analyzed volume and price information to determine whether the mailer:
  - Met its quarterly volume commitment.
  - Paid the correct contract price for each product from [REDACTED]
- Reviewed supporting documentation to evaluate Postal Service oversight of the NSA.

- Reviewed mailer's shipping information for compliance with the NSA provisions on mail type, zone, permit number, and payment system.
- Calculated monetary impact based on the difference between the contract rates and mailer paid rates.

We conducted this performance audit from August 2020 through May 2021, in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on April 19, 2021, and included their comments where appropriate.

We assessed the reliability of computer-generated data by tracing the flow of shipping data through Postal Service systems and reviewing it for completeness and accuracy. We determined that the data were sufficiently reliable for the purposes of this report.

<sup>6</sup> The system of record for all delivery status information for mail and parcels with trackable services and barcodes.

<sup>7</sup> NMATS tracks postage meters, PC postage, customers, settings, and their usage. Data reported in this application is transmitted to the Postal Service by the postage meter providers. NMATS was designed to account for the revenue generated by postage meters currently in the hands of the public.

## Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Negotiated Service Agreement Contract #50593050</i>	Determine mailer compliance with NSA provisions and evaluate the Postal Service's oversight of NSA Contract #50593050.	20-206-R20	9/10/2020	██████████
<i>Partnership Agreement Compliance</i>	Determine e-commerce platforms compliance with agreement provisions and to determine whether opportunities exist to enhance agreement provisions.	19BG004FT000-R20	12/27/2019	N/A
<i>Self-Certification Process for Domestic Competitive Product Negotiated Service Agreements</i>	Evaluate the Postal Service's self-certification process for domestic competitive product NSAs.	CP-AR-17-004	12/16/2016	N/A

# Appendix B: Management's Comments

SHAVON L. KEYS  
VICE PRESIDENT, SALES



May 5, 2021

JOSEPH WOLSKI  
DIRECTOR, AUDIT OPERATIONS  
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Negotiated Service Agreement – Contract [REDACTED]  
Project Number 20-233-DRAFT

The Postal Service generally agrees with the overall findings and the direction the OIG has provided through its recommendations.

Recommendation #1:

We recommend the Vice President, Sales, consider developing an automated process to update pricing information with customers and vendors to eliminate timing and manual processing errors.

Management Response:

Management agrees. The United States Postal Service (USPS) will explore the feasibility of implementing an automated process to update pricing information.

Target Implementation Date:

September 2021

Responsible Officials:

Director Sales Operational Solutions in conjunction with the Director Field Sales Strategy and Contracts.

Recommendation #2:

We recommend the Vice President, Sales, notify customers and third-party PC Postage providers of the pricing differences for appropriate adjudication.

Management Response:

Management agrees. The USPS will make the third-party and customer aware of overpayments for appropriate adjudication.

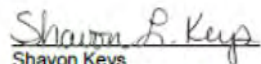
475 L'ENFANT PLAZA SW  
WASHINGTON, DC 20260-5657  
WWW.USPS.COM

Target Implementation Date:

May 2021

Responsible Official:

Director Sales Operational Solutions in conjunction with the Director Field Sales Strategy and Contracts.



Shavon Keys  
Vice President Sales (A)

cc: Sally K Haring, USPS Manager, Corporate Audit and Response Management

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UNITED STATES POSTAL SERVICE

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