



Office of Inspector General | United States Postal Service

Audit Report

Uncompensated and Undercompensated Services

Report Number 20-208-R21 | April 5, 2021



Table of Contents

Cover	
Highlights.....	1
Objective.....	1
Findings	1
Recommendations	1
Transmittal Letter	2
Results.....	3
Introduction/Objective.....	3
Background	3
Finding Summary	3
Finding #1: Government Services	4
Reimbursements from Federal Agencies.....	4
Reimbursements from Congress.....	8
Recommendation #1.....	9
Finding #2: Uncompensated and Undercompensated Business Services	9
Services for High-Volume Mailers	9
Political and Election Marketing Mail at First-Class Service.....	11
Sunday Delivery	11
Recommendation #2	13
Other Matters	13
Insurance	13
Packaging Supplies	13
Management’s Comments	13
Evaluation of Management’s Comments.....	14
Appendices	16
Appendix A: Additional Information	17
Objective, Scope, and Methodology	17
Prior Audit Coverage	18
Appendix B: Management’s Comments	19
Contact Information	24

Highlights

Objective

Our objective was to determine whether the U.S. Postal Service is appropriately compensated for selected government and business services.

The mission of the Postal Service is to provide the American public with trusted, affordable, and universal mail service. Through legislative enactments that codify service levels, the Postal Service must provide mail service to every U.S. address six days a week. The Postal Service also provides accessible retail locations throughout the U.S. and offers a variety of services and products to its customers. The Postal Service relies on the sale of postage, products, and services to fund its operations. However, these operations come at a high cost; over the last 20 years, the Postal Service has only had a positive net income four times.

While its financial situation has been described as unsustainable, the services the Postal Service provides are of tremendous value to the public and businesses. We identified 9 critical services the Postal Service provides beyond general mail processing and delivery for which it is either uncompensated or undercompensated. These services generally benefit two groups: the government or business customers.

Findings

Opportunities exist to address uncompensated or undercompensated services provided by the Postal Service. The services we studied resulted in losses of about \$743.3 million annually.

Government Services

The Postal Service coordinates with multiple agencies and Congress to obtain funding for services outside of regular mail delivery, with limited success. Specifically, the Postal Service provides uncompensated or undercompensated services to include: mail delivery to the Freely Associated States, the Alaska Bypass

program, government mailings, repayment under the Revenue Forgone Reform Act of 1993, and its obligation for providing universal service. In some of these instances, the Postal Service does not have control over pricing or compensation, and – in some cases – must work through a secondary agency who is not the beneficiary of the service to receive funding. In other instances, the Postal Service either provided services without a formal payment agreement or decided to not request compensation. Under payment associated with government services resulted in an annual revenue loss of \$636.4 million.

Business Services

The Postal Service provides multiple services to business customers for which it is not fully compensated. These services include the specialized and customized packaging programs, the provision of mail transport equipment to mailers, expedited processing of political Marketing Mail, and Sunday delivery. We found under compensation associated with business service resulted in an annual revenue loss of \$106.9 million in unsupported questioned costs.

Other Matters

The Postal Service provides a number of products that have their costs covered by the sale price, including free standard packaging supplies and insurance on packages. The Postal Service has not conducted studies on the value of these offerings to customers or their impact on market share or product sales. The Postal Service may be able to reduce cost, reduce its number of offerings to better align with customer expectations, or make additional profit on these offerings.

Recommendations

We recommended management:

- Explore strategies for receiving amounts owed or appropriated for government services and providing the Postal Service reimbursement for these services going forward.
- Evaluate opportunities to adjust provisions involving business customers to ensure only services paid for are provided.

“Opportunities exist to address uncompensated or undercompensated services provided by the Postal Service.”

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

April 5, 2021

MEMORANDUM FOR: KRISTIN SEAVER
CHIEF RETAIL AND DELIVERY OFFICER AND
EXECUTIVE VICE PRESIDENT

THOMAS MARSHALL
GENERAL COUNSEL AND EXECUTIVE VICE PRESIDENT

PETER PASTRE
VICE PRESIDENT, GOVERNMENT RELATIONS AND
PUBLIC POLICY

MIKE BARBER
VICE PRESIDENT, PROCESSING AND
MAINTENANCE OPERATIONS

A handwritten signature in cursive script, reading "Melinda M. Perez", is positioned above the "FROM:" field.

FROM: Melinda Perez
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Uncompensated and Undercompensated
Services (Report Number 20-208-R21)

This report presents the results of our audit of Uncompensated and Undercompensated Services.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Carmen Cook, Director, Transportation, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

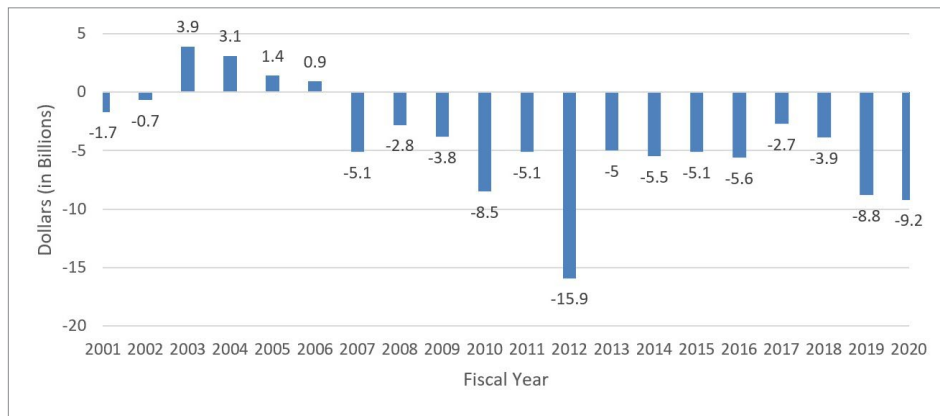
Introduction/Objective

This report presents the results of our self-initiated audit of Uncompensated and Undercompensated Services (Project Number 20-208). Our objective was to determine whether the U.S. Postal Service is appropriately compensated for selected government and business services.

Background

The mission of the Postal Service is to provide the American public with trusted, affordable, and universal mail service. Through legislative enactments that codify service levels, this means the Postal Service is required to provide mail service to every U.S. address six days a week. The Postal Service also provides accessible retail locations throughout the U.S. and offers a variety of services and products to its customers. The Postal Service relies on the sale of postage, products, and services to fund its operations. However, these operations come at a high cost; over the last 20 years, the Postal Service has only had a positive net income four times (see Figure 1).

Figure 1: Postal Service Net Income, Fiscal Years (FY) 2001-2020



Note: The significant deficit in FY 2012 is attributable to the Postal Service's retiree health benefit repayment. The FY 2011 payment was deferred to FY 2012.

Source: Postal Service 10-Ks and USPS Annual Reports to Congress for FYs 2001-2020.

While its financial situation has been described as unsustainable, the services it provides bring tremendous value to the public and businesses. We identified critical services the Postal Service provides beyond general mail processing and delivery for which it was either uncompensated or undercompensated (see Table 1). Some of these services require coordination with multiple agencies and Congress to obtain funding (government services), and some are provided to business customers without full compensation (business services).

Table 1. Supplemental and Enhanced Services

Type of Service	Service
Government Services	Mail to the Freely Associated States
	Alaska Bypass
	Government Mail
	Free Mail to the Blind and Overseas Ballots
	Universal Service Obligation (USO) ¹
Business Services	Mail Transport Equipment (MTE) to Mailers
	Services for High-Volume Mailers
	Political Mail and Election Mail at First-Class Service
	Sunday Delivery

Source: U.S. Postal Service Office of Inspector General (OIG).

Finding Summary

Opportunities exist to address uncompensated or undercompensated services provided by the Postal Service. Specifically, the Postal Service could explore potential strategies to receive fair compensation for government services and ensure business customers pay for the level of service provided for business

¹ Ensures that the Postal Service provides a minimum level of service to all areas of the country. There is no set and clear definition of the Postal Service's USO; it is generally assumed to be a collection of various laws and regulations.

services. These services we studied resulted in losses of about \$743.3 million annually.

Finding #1: Government Services

The Postal Service was not fully compensated for some government services. The Postal Service does not have direct control over pricing or compensation for these services – in some instances the Postal Service must seek reimbursement from a secondary agency, while in others it must request appropriations from Congress. The Postal Service does not have a strategy to receive additional funding for any of the government services herein, contributing to an annual revenue loss of \$636.4 million.

“The Postal Service does not have direct control over pricing or compensation for these services.”

Reimbursements from Federal Agencies

The Postal Service coordinates with multiple agencies to obtain funding for government services outside of regular mail delivery. These services include delivery to the Freely Associated States, the Alaska Bypass program, and an individual government mailing.

The Postal Service is required, per treaties signed and negotiated by the U.S. Department of State, to provide mail delivery and service standards to a chain of islands in the south Pacific known as the Freely Associated States. The Freely Associated States include the Republic of Palau, the Republic of the Marshall Islands, and the Federated States of Micronesia. These islands average roughly 3,500 miles from Honolulu, about the distance from Seattle to Key West (see Figure 2).

Figure 2. Locations of Freely Associated States



Source: OIG.

“In order to be reimbursed for the additional costs, the Postal Service relies on the U.S. Department of Interior to request compensation from Congress.”

Under international compacts signed after World War II, the Postal Service is responsible for transporting mail between Freely Associated States and the rest of the world.² The Postal Service delivers mail to seven airports in the three countries. It uses a collection of charter planes, ships, and commercial aircraft to transport mail at a domestic rate and service standard.³ However, domestic rates do not cover the Postal Service’s full cost of delivery to Freely Associated States. In order to be reimbursed for the additional costs, the Postal Service relies on the U.S.

2 There are also additional services provided by other federal agencies to the Freely Associated States detailed within these compacts. The U.S. has exclusive military rights to the islands and their waters in exchange for the services.

3 The Postal Service extended zone pricing to include a “Zone 9” for Priority Mail and Priority Mail Express products only shipped to the Freely Associated States, which created a specific zone.

Department of Interior to request compensation from Congress. The Department of Interior requests appropriations from Congress annually to pay for all the services agreed to under the compacts. For FYs 2015-2019, the Postal Service incurred costs not covered by postage totaling about \$59 million. However, the Postal Service was only reimbursed about \$11.2 million by the Department of Interior, leaving a shortfall of about \$47.8 million. See Table 2 for the total shortfall for FYs 2015-2019.⁴

Table 2. Freely Associated States' Revenue Loss for FYs 2015-2019⁵

FY	Amount Owed	Amount Received	Difference
2015	\$10,681,624	\$2,255,500	(\$8,426,124)
2016	11,324,937	2,267,808	(9,057,129)
2017	11,059,368	2,176,539	(8,882,829)
2018	11,420,197	2,288,938	(9,131,259)
2019	14,508,965	2,249,600	(12,259,365)
Total	\$58,995,091	\$11,238,385	(\$47,756,706)

Source: OIG analysis of Postal Service Global Business data.

This occurred because the Postal Service's strategy to request reimbursement from the Department of Interior has not been effective. During the exit conference, Postal Service management stated they have taken a strong stand in the latest

effort to reintroduce Postal Service into the FAS negotiations, but no support of these actions was provided.

The COVID-19 outbreak has reduced the number of international cargo and commercial flights, which has led to a major interruption in international mail service operations, including service to the Freely Associated States. As a result of the flight cancelations, the Postal Service had to employ more expensive charter flights to handle Freely Associated States' mail volume; therefore, the Postal Service has spent an additional \$3.5 million to transport mail to Freely Associated States during the pandemic.

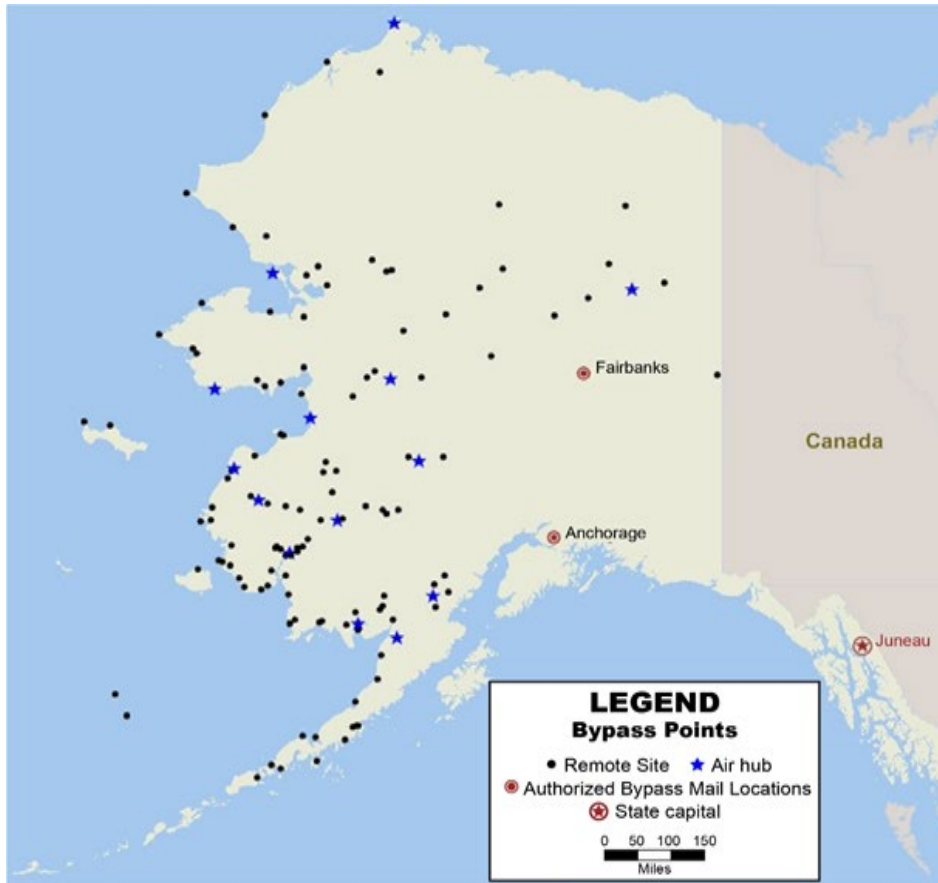
The Alaska Bypass program is another example of the Postal Service not receiving sufficient postage to cover transportation costs. Under this program, established in 1972, retailers in Alaska pay Preferred Ground Parcel Post rates for the Postal Service to transport pallets⁶ of goods from Alaskan cities to airports throughout rural Alaska. This "bypass" mail is prepared in two major Alaskan cities: Anchorage and Fairbanks. From these authorized Bypass mail locations, pallets are transported by air to a hub location, where they are either delivered to local post offices and merchants or placed on smaller planes for delivery to various remote locations throughout Alaska. Bypass mail is unique in that the Postal Service does not sort or prepare it; instead, the Postal Service is merely the facilitator of and payer for the air transportation component. Congress introduced the program to ease Postal Service operational bottlenecks and increase the reliability of rural package service. Under the program, 239 dispersed islands and remote regions throughout Alaska receive Bypass mail (see [Figure 3](#)).

⁴ The Department of Interior receives less than it requests each year and must allocate the appropriations between multiple agencies expending resources to support the Freely Associated States.

⁵ These figures do not include the differential revenue between Zone 8 and Zone 9.

⁶ The minimum weight of a Bypass shipment is 1,000 pounds. The pallets often contain food, soda, and paper goods, which in the Continental United States (CONUS) are normally handled as freight by a private company. Within CONUS, Parcel Post is associated to packages weighing up to 70 pounds.

Figure 3. Alaska Hub and Bypass Locations



Source: OIG analysis of Postal Service air stop data.

Congress authorized the Department of Transportation to regulate which airline carriers would be Alaska Bypass program participants and what the Postal Service pays those air carriers.⁷ The Postal Service does not control which carriers participate in the program and bases the costs on what the airline carriers submit for fuel, labor, maintenance, and terminal handling fees.⁸ However, the Parcel Post rates the Postal Service charges for Bypass mail are

⁷ This is established by 39 U.S.C. §5402(f) and 49 U.S.C. §4901.

⁸ Fees that cover preparation of breaking down the pallets for the plane at the origin and unloading the pallets from the plane at its destination.

not based on the actual costs paid to the airline carriers. Although Alaska Bypass mail is not handled like regular mail, its pricing is calculated like all other mail classes. Because Alaska Bypass falls within the Package Services class, any increase to Alaska Bypass prices must be balanced with increases to other products within the class so that overall Package Services rates do not increase.

The Postal Service has lost money providing Bypass mail every year since its inception.

For FYs 2015-2019, Alaska Bypass transportation cost the Postal Service about \$625.4 million, while postage revenue was about \$165.6 million, resulting in a shortfall of about \$459.8 million. See Table 3 for the total shortfall for FYs 2015-2019.

“The Postal Service has lost money providing Bypass mail every year since its inception.”

Table 3. Alaska Bypass Revenue Loss for FYs 2015-2019

FY	Expense	Revenue	Difference
2015	\$114,722,160	\$33,761,808	(\$80,960,352)
2016	119,544,945	33,522,654	(86,022,291)
2017	119,777,988	33,694,227	(86,083,761)
2018	129,692,949	32,909,513	(96,783,436)
2019	141,638,363	31,731,436	(109,906,927)
Total	\$625,376,405	\$165,619,638	(\$459,756,767)

Source: Data was provided by the Postal Service’s Regulatory Reporting and Cost Analysis Group.

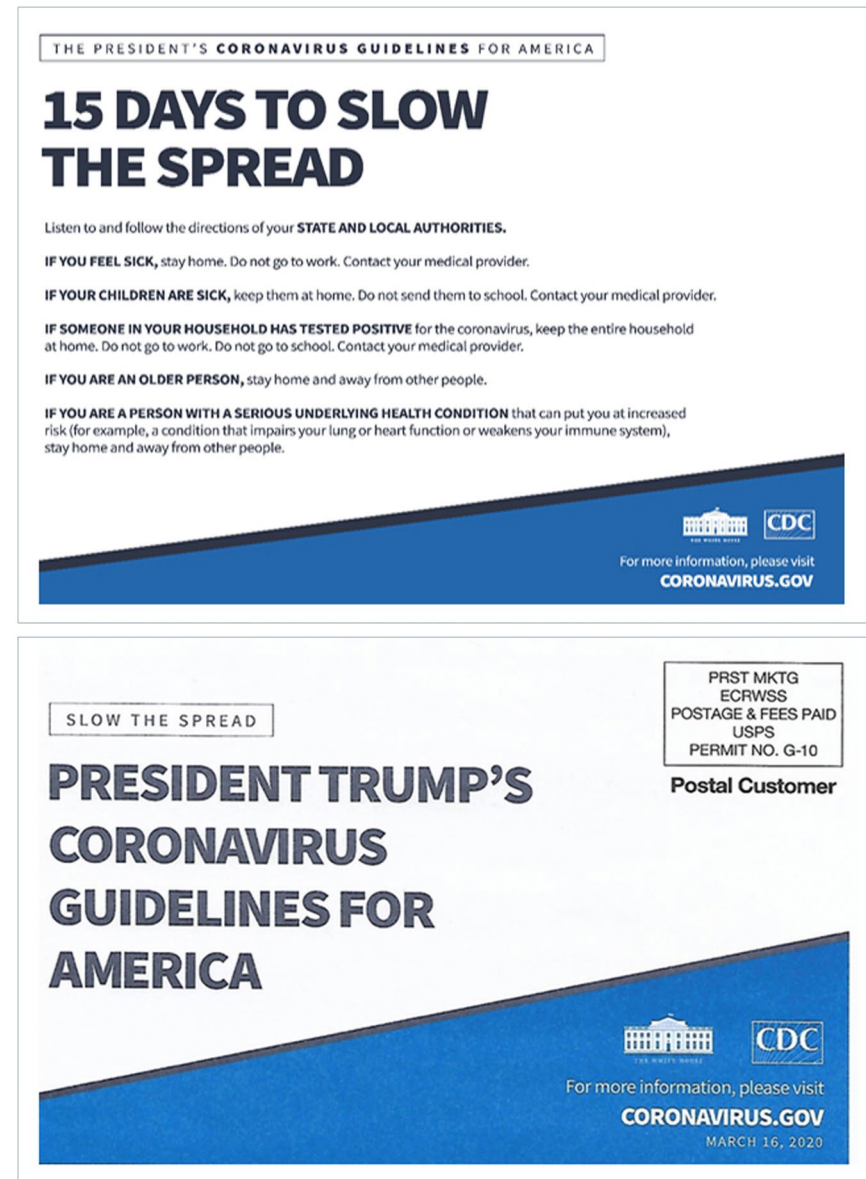
This occurred because the Postal Service does not negotiate carrier rates, as it does with airlines outside of the Alaska Bypass program. The Department of Transportation’s standardized rate calculations provide little incentive for Bypass airlines to lower their costs, which results in high costs for the Postal Service. Further, the Postal Service strategy does not include requesting assistance from Congress to fully cover the cost of the Alaska Bypass program.

An additional service the Postal Service provides is administering government mail, which consists of mail sent by and relating exclusively to the business of the U.S. government.⁹ The only government mail for which the Postal Service pays postage or completes printing is internally generated Postal Service mailings, which are printed with a G-10 permit.¹⁰ All other government mail is paid for and produced by the sender agency or Congress.

An extensive use of government mail occurred in response to the COVID-19 pandemic. In March 2020, the White House, Centers for Disease Control and Prevention (CDC), and the Postal Service’s Board of Governors agreed that the Postal Service would print and deliver COVID-19 postcards to roughly 139 million American households (see Figure 5). The Postal Service wanted to produce and deliver these postcards as soon as possible, so it leveraged its existing relationships with multiple printing companies across the country. The Postal Service had not previously printed mailings for other federal agencies. The Postal Service used the G-10 permit for postage with the intent of being reimbursed by one of the coordinating agencies.

However, the Postal Service did not establish which entity would pay for the COVID-19 postcard prior to its distribution and incurred \$25 million and \$4.6 million in postage and printing costs, respectively. According to Postal Service management, the G-10 permits were used on the postcards for expedited delivery due to the unusual circumstances of the mailing. Neither the CDC, the White House, nor any other entity reimbursed the Postal Service for the cost of this mailing.

Figure 5. COVID-19 Postcard



Source: President's Coronavirus Guidelines for America, sent March 2020.

⁹ This includes Penalty Mail, Prepaid Mail, internally generated Postal Service mail, and Congressional and Franked Mail.

¹⁰ G-10 permits are used for official Postal Service mail. They are not charged a postage rate and are not to be used by other agencies.

The Postal Service incurred these costs because it did not appropriately plan before agreeing to produce the COVID-19 mailings and offer printing services to another federal entity. Adhering to its own policy and ensuring a payment process is established before the service is provided is crucial to ensuring receipt of proper compensation. Providing printing and mailing services for government agencies could be an opportunity to generate revenue, but current policy does not cover such services.

Reimbursements from Congress

The Postal Service can request reimbursement from Congress for services it offers under the Revenue Forgone Reform Act of 1993¹¹ and the USO subsidy.¹² The Revenue Forgone Act covers appropriations for two types of revenue forgone services: services currently provided and reimbursement for the cost of revenue forgone services provided between FYs 1991-1998.

Specifically, current revenue forgone services include free mail to blind and handicapped citizens and free election ballot return mail service for the military and other citizens serving the country abroad. Congress appropriates funds to reimburse the Postal Service for the cost incurred providing these services each year, and the Postal Service has received repayment over the last five years. However, the repayment fell short by about \$872,000.

Additionally, the Revenue Forgone Reform Act authorizes Congress to make 42 annual payments of \$29 million each, beginning in FY 1994 and continuing through FY 2035, to reimburse the Postal Service for revenue forgone services performed without payment from FYs 1991-1998. The Postal Service submitted its legislatively permitted request of \$29 million for repayment of these services to the U.S. Office of Management and Budget for FYs 2015-2019. The Postal Service received the annual \$29 million payments in FYs 2015-2016¹³, but did not receive payments from FYs 2017-2019. See Table 4 for the total shortfall of \$87 million for FYs 2015-2019.

¹¹ Pub. L. 103-123 (1993)

¹² 39 U.S. Code §2401.

¹³ Previous OIG audit work issued on May 3, 2016, addressed concerns with revenue forgone (Report Number [FT-AR-16-006](#)).

¹⁴ 39 U.S. Code §2401.

Table 4. Revenue Forgone Reimbursements

FY	Amount Due	Amount Received	Difference
2015	\$29,000,000	\$29,000,000	\$0
2016	29,000,000	29,000,000	0
2017	29,000,000	0	(29,000,000)
2018	29,000,000	0	(29,000,000)
2019	29,000,000	0	(29,000,000)
Total	\$145,000,000	\$58,000,000	(\$87,000,000)

Source: Postal Service FY 2021 Budget Congressional Submission.

The Postal Service does not pursue repayment after the formal appropriations process because it considers the repayment a matter of congressional discretion. Postal Service management provided a letter identifying the revenue forgone shortfall over the past five years but their strategy does not call further attention to ensuring future installments are paid.

Another government service for which the Postal Service could, but does not currently receive compensation for, is providing universal delivery service. The USO subsidy was enacted in a 1970 federal law to offset the costs of delivery to communities that are unprofitable for the Postal Service, including rural areas.¹⁴ The law enables the Postal Service to request \$460 million annually from Congress. However, the Postal Service has not requested those funds since 1982.

“The law enables the Postal Service to request \$460 million annually from Congress. However, the Postal Service has not requested those funds since 1982.”

According to the Postal Service, it does not request the funds for three reasons:

- It prefers to be financially self-sustaining and has sought legislative and regulatory changes to make that possible.
- There is no guarantee that Congress would provide funding in full or in part.
- The annual allowance would not be enough to cover the total cost of the USO.

While in the past the Postal Service preferred to focus on remaining financially self-sustaining, more recently it has sought and received financial relief due to COVID-19 impacts and other financial challenges. This may be an appropriate time to consider strategies to ensure compensation for critical government services that are currently not covering its costs.

Recommendation #1

We recommend the **Vice President, Government Relations and Public Policy**, in coordination with the **General Counsel and Executive Vice President**, explore strategies for receiving amounts owed or appropriated for government services and providing the Postal Service reimbursement for these services going forward.

Finding #2: Uncompensated and Undercompensated Business Services

The Postal Service provides multiple services to business customers for which it is not fully compensated, costing the Postal Service \$106.9 million annually. These services include two services for high-volume mailers – provision of MTE to mailers and the specialized and customized packaging programs – as well as the expedited process used for Political Marketing Mail and Sunday delivery.

Services for High-Volume Mailers

The Postal Service provides MTE at no cost to mailers because of the basic need for equipment compatibility with existing Postal Service processing equipment.¹⁵

This ensures productivity and efficiency in Postal Service operations. The Postal Service expended about \$943 million for MTE from FYs 2015-2019.

The Postal Service MTE network consists of 15 Mail Transport Equipment Service Centers (MTEESC). Their purpose is to receive new and used MTE for repackaging and/or repair for redeployment via the Mail Transport Equipment Ordering System (MTEOR)¹⁶ to postal plants, delivery units, local mailers, major mailers, and other MTEESCs. The Postal Service uses physical inventories and customer demand to determine purchasing needs; however, it does not have a system in place for determining if mailers return the requested MTE inventory back into postal processing operations. Without a system to accurately determine leakage/loss of MTE, the Postal Service is at risk of losing valuable assets. Additionally, the Postal Service has not conducted studies on MTEs' value to customers or its impact on market share or product sales.

To receive equipment from the Postal Service, all mailers must complete an application for access to MTEOR. Currently, the Postal Service does not have a process in place to track MTE coming back into its facilities and only about 71 percent of mailers, on average, completed the required weekly inventory of MTE on hand. To address mailers not completing their weekly on-hand inventory in MTEOR as required, Postal Service management created a MTEOR PowerPoint for the Business Service Network representatives to reinforce existing reporting requirements with mailers. In addition, while management had not been conducting MTE audits at Postal Service facilities as required, management has begun to take corrective action and conducted an audit of MTE inventory at the

“Postal Service provides multiple services to business customers for which it is not fully compensated.”

¹⁵ The Postal Service purchases and provides MTE to move mail and packages within its plants, delivery units, and mailers. MTE includes sacks, rolling containers, hampers, pallets, mail trays, sleeves, and flat tubs.

¹⁶ METEOR provides a standardized process for mailers to place MTE orders online. This system also permits users to check the status of an order, see their order history, and modify an order. The Postal Service reviews the performance of mailers and tracks their orders through this system.

New Jersey Network Distribution Center during our audit, with additional audits planned in the future. No recommendations about MTE audits will be made at this time.

Additionally, requests for MTE increased to accommodate a sharp increase in demand for shipped products during the COVID-19 outbreak. We analyzed data from MTEOR for sacks for 2019-2020 (see Table 5), which are used for packages, and pallets (see Table 6), which are used for packages and letter mail. Between March and May, the number of sacks increased by about 2.9 million, costing about \$2.4 million (8.6 percent increase in cost). Further, mailers also ordered about 1.2 million more pallets than they did during the same period last year, costing the Postal Service nearly \$22.4 million (13.1 percent increase in cost).

Table 5. 2019 and 2020 Sack Comparison

Month	Number of Sacks FY 2019	Number of Sacks FY 2020	Change in Sacks
March	11,070,000	11,008,500	(61,500)
April	11,304,000	11,532,000	228,000
May	11,643,500	14,404,500	2,761,000
Total	34,017,500	36,945,000	2,927,500

Source: MTEOR.

Table 6. 2019 and 2020 Pallet Comparison

Month	Number of Pallets FY 2019	Number of Pallets FY 2020	Change in Pallets
March	2,969,820	3,194,325	224,505
April	3,198,825	3,339,720	140,895
May	3,026,430	3,852,135	825,705
Total	9,195,075	10,386,180	1,191,105

Source: MTEOR.

An additional service provided to high-volume mailers is free specialized¹⁷ and customized¹⁸ packaging. Specialized packaging is cobranded, Postal Service-produced shipping supplies, and customized packaging includes non-standard sized boxes and envelopes. Between FYs 2015-2019, the Postal Service spent [REDACTED] to produce these types of packaging; however, it did not always distribute specialized and customized packaging in line with program revenue objectives and policy requirements. During this time period, [REDACTED] specialized packaging customers and [REDACTED] customized packaging customers did not meet their volume commitment. This is required because the Postal Service can only offset the costs of providing free expedited packaging supplies to customers by generating revenue from the corresponding mail services.¹⁹

¹⁷ Made-to-order expedited packaging supplies (EPS) that is provided to qualifying customers. These items are not maintained in inventory but are instead produced on demand and shipped directly to the customer.

Specialized packaging requires a minimum of \$75,000 in new annualized expedited revenue.

¹⁸ EPS made to meet a customer's specific needs. Customized packaging is available only to customers who generate at least \$350,000 in new annual expedited revenue.

¹⁹ Monetary Impact was claimed in *Expedited Packaging Supplies Program Costs* (Report Number 19-009-R21, dated October 21, 2020).

Political and Election Marketing Mail at First-Class Service

The Postal Service plays a vital role in the American democratic process, and its role continues to grow as the volume of Political²⁰ and Election Mail²¹ increases. Political and Election Mail can be sent as either First-Class Mail, which takes 2 to 5 days to be delivered, or Marketing Mail, which takes 3 to 10 days to be delivered. Marketing Mail costs less to deliver than First-Class Mail. The average difference in cost between these two types of mail was \$0.05 per piece in FY 2018 and \$0.03 per piece in FYs 2019-2020.

Although Political and Election Mail is separated from regular letter mail using special tags, the Postal Service does not differentiate the delivery standard for Political and Election Mail based on First-Class Mail or Marketing Mail postage class. We found the Postal Service often prioritizes Political and Election Mail mailed as Marketing Mail and delivers it within a First-Class Mail service standard. Specifically, from March 3, 2018, through July 31, 2020, the Postal Service processed, transported, and delivered 935 million of 1.4 billion total pieces of Political Marketing Mail (68 percent) at a First-Class Mail service standard, costing the Postal Service an additional \$33.3 million. If the Postal Service begins processing, transporting, and delivering this mail type at the correct service standard, it must ensure it communicates this change effectively to political mailers. Because Political Marketing Mail has generally traveled at a First-Class service standard regardless of its postage, mailers may assume this will continue to happen. Not effectively communicating a change could lead to impactful advertisements reaching recipients after an election.

Additionally, from March 3, 2018, through July 31, 2020, the Postal Service processed, transported, and delivered 138 million of 199 million total pieces of Election Marketing Mail (69 percent) at a First-Class Mail service standard. In a previous OIG audit,²² we recommended the Postal Service work toward creating

a separate, simplified mail product exclusively for Election Mail that would support uniform mail processing, including mandatory mailpiece tracking and proper mailpiece design, by leveraging established partnerships with state and local election officials. Additionally, we recommended that until a new product is developed, the Postal Service continue to prioritize the processing of Election Mail consistent with past practices. On October 15, 2020, a federal court required the Postal Service to begin delivering all Election Mail within First-Class Mail service standards, even if sent at a Marketing Mail rate.

Sunday Delivery

In October 2013, to increase revenue and enhance service, the Postal Service introduced an option for specific Negotiated Service Agreement (NSA) holders to drop their packages at Postal Service delivery units on Sunday for same-day delivery across multiple ZIP Codes. For Sunday delivery, the Postal Service creates unique routes based on the anticipated volume using its Dynamic Routing Tool.²³ The Postal Service entered into its first NSA²⁴ for Sunday delivery with [REDACTED]. This was the only Sunday delivery NSA-holder in FYs 2018-2019. In FYs 2018-2019, the Postal Service delivered packages that were not sent by the NSA-holder, and it used career carriers to deliver on Sunday, at a higher-than-anticipated cost.

During the non-peak season²⁵ of FYs 2018-2019, the Postal Service delivered about [REDACTED]²⁶ on Sundays. The Sunday NSA-holder accounted for an average of [REDACTED] of the Sunday package volume. The NSA-holder was the only company authorized to induct packages for Sunday delivery. All other companies whose packages were delivered were done so without a Sunday NSA. The advancement of the packages was (processed earlier than the service standards required) by either the plant or delivery unit and did not include the cost of Sunday delivery in the rates the mailers paid

20 Any mailpiece for political campaign purposes sent by a registered political candidate, a campaign committee, a committee of a political party, political action committee (PAC), super-PAC, or other organization engaging in issue advocacy or voter mobilization, to promote political candidates, referendums, or political campaigns.

21 Any item mailed to or from authorized election officials that enables citizens to participate in the voting process, such as balloting materials, voter registration cards, absentee applications, and polling place notifications.

22 *Processing Readiness of Election and Political Mail During the 2020 General Elections* (Report Number 20-225-R20, dated August 31, 2020).

23 Creates a street route based on estimated miles traveled and the number of packages for each route.

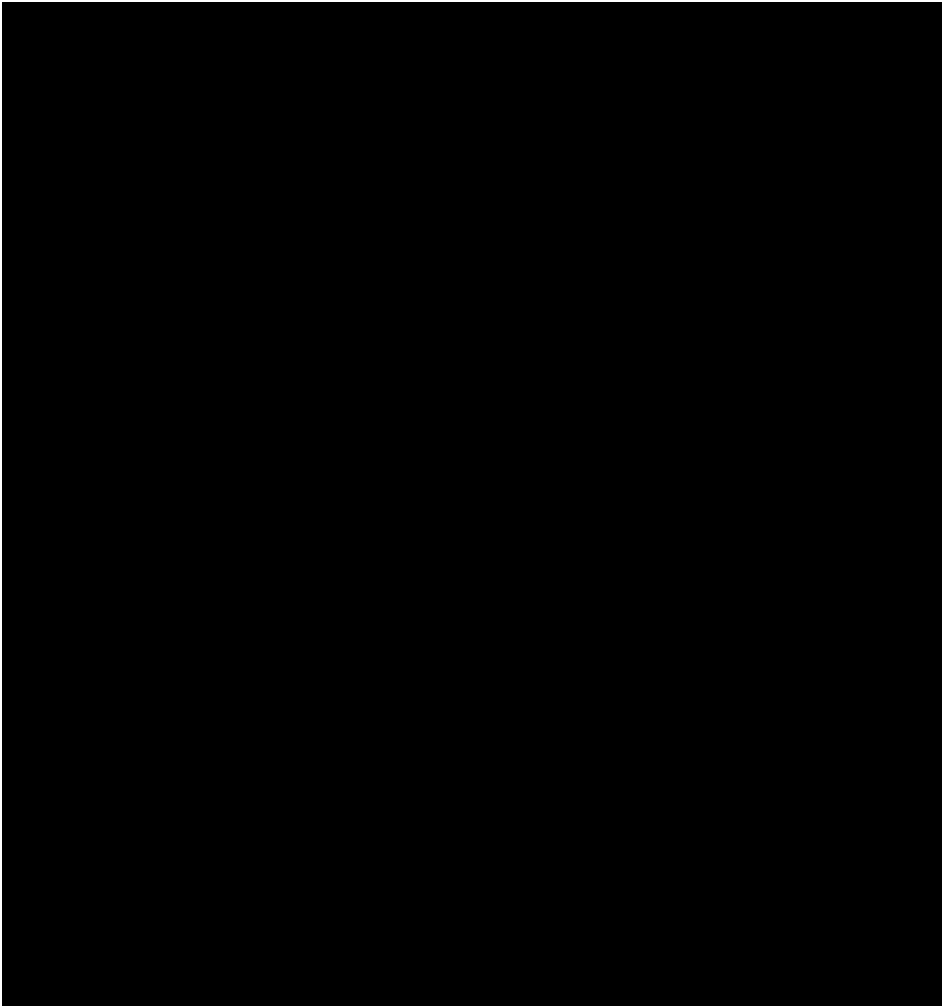
24 A contractual agreement between the Postal Service and an individual company that provides pricing incentives in exchange for a shift in behavior by the company that benefits the Postal Service.

25 For Sunday delivery packages, peak season is about five weeks between Thanksgiving and New Year's Day. The Postal Service delivers packages across its network, regardless of the company shipping them, every day of the week during peak season. This is the most recent package volume available for past Peak Seasons.

26 Package volumes were extracted from the Product Tracking System in the EDW.

for postage.²⁷ See Figure 6 for the top 10 companies whose packages were delivered on Sunday for FYs 2018-2019.

Figure 6. FYs 2018-2019 Sunday Package Volume



Source: EDW Product Tracking System. Any differences are a result of rounding.

We also analyzed the cost coverage assumptions used to justify the NSAs. The Postal Service calculated cost coverage for Sunday delivery based on the understanding that City Carrier Assistants (CCA) would deliver the packages, rather than regular city carriers. The average CCA's fully loaded rate for FYs 2018 and 2019 was about \$24 per hour, while a regular city carrier's average fully loaded rate was \$57 per hour for the same period.²⁸ We found local management used regular carriers in addition to CCAs to deliver Sunday packages, increasing delivery costs. Specifically, in FY 2018, regular carriers accounted for [REDACTED] of the Sunday hours. FY 2019 saw improvement, with regular carriers making up about [REDACTED] of the Sunday hours; however, in FY 2018 & FY 2019 combined, [REDACTED] of these hours were at overtime rates.

This occurred because Sunday delivery operations were not aligned with assumptions made in Sunday delivery cost-coverage calculations. Specifically:

- Processing plant employees advanced packages to delivery units and mailers dropped packages before delivery operations began on Sunday. Rather than leave the packages at the delivery unit, local management cleared the floor and sent all packages out for delivery.
- Local management based staffing decisions on preliminary package volume estimates received on Saturdays for Sunday deliveries. Rather than risk being understaffed, managers called in regular carriers. When the estimated volume does not materialize and a regular city carrier is called in to work, they are guaranteed eight hours of pay. Because of this, regular carriers were kept on and CCAs were sent home if there were not enough packages to fill all routes.
- Because local management had extra carriers on Sundays, they would have carriers deliver packages at the facility that were not scheduled for Sunday delivery in order to keep carriers gainfully employed and to advance packages that would have been delivered on Monday.

In FYs 2018-2019, the Postal Service delivered [REDACTED] packages that were not authorized for Sunday delivery and incurred additional expenses of [REDACTED] by using regular carriers to deliver Sunday packages in lieu of CCAs.

²⁷ While other mailers paid postage for their deliveries, they did not pay a rate calculated to cover the additional cost of Sunday operations.

²⁸ Fully loaded rates include an employee's salary and benefits, while hourly rates are just salary.

Recommendation #2

We recommend the **Chief Retail and Delivery Officer and Executive Vice President** and the **Vice President, Processing and Maintenance Operations**, evaluate opportunities to adjust provisions involving business customers to ensure only services paid for are provided.

Other Matters

The Postal Service provides a number of services – including offering insurance on packages and free standard packaging supplies for residential and commercial customers – wherein the costs for both are covered by the sale of postage for Priority Mail products but are presented to the customer as free.²⁹

Insurance

The Postal Service offers insurance to protect customers' packages against loss or damage.³⁰ The Postal Service's goal in offering free insurance is to provide customers the best value in the shipping marketplace. Implicitly, the goal includes bringing in new business and enabling the Postal Service to remain competitive with other carriers, who were already offering free insurance on some products.

Packaging Supplies

The Postal Service provides expedited packaging supplies specifically designed for use with its domestic and international Priority Mail Express and Priority Mail services at no additional cost to customers. The Postal Service must cover its attributable costs on the supplies.³¹ For the past five fiscal years, the Postal Service has covered its attributable costs by including the costs of expedited packaging supplies in the shipping price of Priority Mail and Priority Mail Express. However, opportunities exist to improve the expedited packaging supplies program. In a previous OIG audit,³² we recommended the Postal Service evaluate and implement, as appropriate, available options to gather complete expedited packaging usage data. One part of the expedited packaging supplies,

Standard packaging,³³ offered through the program is promoted as “free” packaging to attract and retain customers, but there is a cost associated with producing, storing, fulfilling, and delivering the packaging to post offices and customers. These supplies should be used for their intended purposes because packaging wasted, destroyed, or not used to ship goods is a liability to the Postal Service. Between FYs 2015-2019, the expedited packaging supplies program expended [REDACTED] in packaging supplies. Standard packaging represented [REDACTED] of expedited packaging supplies supplier costs.

The Postal Service has not conducted a willingness-to-pay study for standard packaging. Although costs are covered under the shipping price, customers may be more likely to take only the amount of packaging supplies they need if there was an associated cost for those supplies and the price of shipping decreased.

The Postal Service has not conducted a study on the value of these offerings to customers or their impact on market share or product sales. We make no recommendations, but there may be an opportunity in these additional offerings for the Postal Service to reduce cost, reduce its number of offerings to better align with customer expectations, or increase profits.

Management's Comments

Management partially agreed with the report's findings and recommendations 1 and 2. Management also provided further details involving findings 1 and 2, which we summarize below. In addition, in subsequent conversations, management disagreed with monetary impact. See [Appendix B](#) for management's comments in their entirety.

Regarding finding 1, management agreed that certain governmental services have not been fully reimbursed but stated they have sought reimbursement for these activities and will continue to do so. However, full reimbursement for

²⁹ The Postal Service offers free insurance to remain competitive, as the other major shipping providers offer it.

³⁰ The Postal Service started offering free insurance on two premium products, Priority Mail and Priority Mail Express, in 2013. Free insurance of up to \$50 is available on Priority Mail and up to \$100 on Priority Mail Express.

³¹ Attributable costs include the sum of volume variable costs, product-specific costs, and those inframarginal costs calculated as part of the product's incremental costs.

³² *Expedited Packaging Supplies Program Costs* (Report Number 19-009-R21, dated October 21, 2020).

³³ EPS that are available to customers online, through USPS.com, or in post offices. There is no monetary minimum required to use these supplies.

these amounts is outside of their control. For instance, it is within Congress's discretion as to how much money to appropriate for some of these services, and while management has and will continue to request full funding each year, they cannot control how much is actually appropriated. Management also stated that the Postal Service should be self-sufficient regarding achievement of the USO and is developing a comprehensive strategic plan that proposes legislative and administrative reforms that would allow self-sufficiency.

Regarding recommendation 1, management partially agreed and stated they are pursuing strategies to ensure reimbursement for costs associated with most government services. Management further stated that the Postal Service Board of Governors does not agree at this time that it is appropriate to request an appropriation for USO costs and remains committed to fulfilling its obligation of being self-sufficient when it comes to achievement of the USO. Management added that they will provide an update on their efforts to explore strategies to obtain reimbursements on government services. The target implementation date is December 31, 2021.

Regarding finding 2, management agreed that it is important to evaluate and pursue pricing and operational strategies, and that rates paid by customers should align with the services received. Management also stated that not establishing a specific rate or fee for a specific service does not mean the costs are unrecovered or that an appropriate business strategy is not being pursued, specifically citing costs of MTE and Sunday delivery as examples. Management also disagreed with the OIG's conclusions regarding the usage of carriers for Sunday delivery, as their dataset for analyzing the employee mix of workhours on Sunday was different from what the OIG used.

Regarding recommendation 2, management partially agreed and stated they have and will continue to evaluate opportunities to ensure appropriate alignment between prices and the services provided to customers, based on all relevant business and operational considerations such as staffing, volumes, and other working conditions. However, management noted that some circumstances may occur where it makes business or operational sense to handle particular mail or package volume in a certain way even if the specific service is not paid for separately. Management stated they will provide an update on their efforts to

ensure appropriate alignment between prices and the services provided. The target implementation date is December 31, 2021.

Regarding monetary impact, in subsequent conversations, management explicitly disagreed with monetary impact, specifically Alaska Bypass, Political and Election Marketing Mail at First-Class Service, and Sunday delivery. Regarding Alaska Bypass, management believes that actual numbers should have been used as opposed to regression analysis. Regarding Political and Election Marketing Mail, management believes that a weighted average of the costs should have been used and the costs for international mail should have been removed from the calculation. Regarding Sunday delivery, management believes that incorrect data was used to analyze workhours.

Evaluation of Management's Comments

We consider management's comments to be responsive to recommendations 1 and 2.

Regarding management's concerns with finding 2 and the monetary impact:

- We realize that an optimal MTE strategy must consider more than just the cost of equipment and include indirect benefits of operational efficiencies, which is why we identified no monetary impact for this topic.
- Management stated that the Postal Service has been fully compensated for specialized and customized packaging costs. In a previous audit (*Expedited Packaging Supplies Program Costs*, Report Number [19-009-R21](#), dated October 21, 2020), we found opportunities for the Postal Service to track usage, ordering, and monitoring data more effectively. We also did not claim monetary impact for these costs because they had been claimed in the previous audit.
- Regarding the usage of carriers for Sunday delivery operations, we determined the data the Postal Service provided, which we used to compute the analysis of Sunday workhours, contained workhours associated with regular carriers, not CCAs. This difference skews the number of hours regular carriers are working versus the number of hours CCAs are working,

making the Postal Service's percentage of regular carriers working on Sunday inaccurate.

In addition, while it is true that Delivery offices use the Delivery Operations Information System (DOIS) to manage carrier operations, it is also true that management uses the Time and Attendance Control System (TACS) download to manage carriers' time and attendance functions. This download formed the data that the OIG extracted and analyzed to determine what percentage of Sunday workhours regular carriers were using. The data also provided carrier job descriptions and helped differentiate between regular carriers versus CCAs. The OIG analyzed the workhours of all carriers, whether they were special purpose routes or not, using time and attendance operational numbers 723 and 724. The Postal Service established these codes specifically to track hours used for Sunday delivery.

Finally, through our coordination with Postal Service personnel we acknowledged that special purpose routes do run on Sundays. However, management retrieved the TACS data from DOIS for all employee types in the review and we determined it to be sufficiently reliable for the purpose of this report.

- Regarding monetary impact, for Alaska Bypass, we remained in the parameters of the audit scope (FY 2018 and 2019) and used a consistent methodology when calculating projections for outside of our scope. Once FY 2020 data became available, we took a conservative and consistent approach and used the projected numbers as opposed to the actual number reported. Regarding Political Mail and Election Marketing Mail, we opted to use simple averages to calculate cost per piece as we determined it was a more conservative approach than weighted averages. Regarding Sunday delivery, we determined the data Postal Service provided, which we used to compute the analysis of Sunday workhours, contained workhours associated with regular carriers, not CCAs. This difference skews actual percentages of carriers working on Sunday.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. 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.

Appendices

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

Appendix A: Additional Information.....	17
Objective, Scope, and Methodology	17
Prior Audit Coverage.....	18
Appendix B: Management’s Comments	19

Appendix A: Additional Information

Objective, Scope, and Methodology

The scope of this project is select services offered by the Postal Service that did not cover costs from FYs 2015-2020.³⁴ To accomplish our objective, we:

- Interviewed Postal Service management regarding the topics described in [Table 1](#).
- Analyzed Compact Agreements for the Freely Associated States including Micronesia, Marshall Islands, and Palau.
- Analyzed financial reports produced for the Alaska Bypass program to determine costs and revenue.
- Analyzed Postal Service Appropriations Requests, FYs 2015-2021.
- Analyzed Postal Service Congressional Appropriations, FYs 2015-2019.
- Reviewed the Postal Service's 10-K filing for FY 2019.
- Reviewed the Postal Regulatory Commission order on analytic principles which addresses cost attributed to free insurance.
- Obtained and analyzed data for insurance included in postage costs, FYs 2015-2019.
- Reviewed data from EDW to determine the costs of packaging supplies for FYs 2015-2019.
- Reviewed the International Cost and Revenue Analysis and the Cost and Revenue Analysis reports to determine if Priority Mail and Priority Mail Express covered their costs for FY 2019.
- Reviewed laws and regulations and policies and procedures related to free packaging supplies.
- Reviewed the daily COVID-19 and year-over-year analysis regarding free packaging supplies for COVID-19.

- Analyzed EDW data to identify MTE costs for FYs 2015-2019.
- Analyzed MTEOR to determine the increase in demand for sacks and pallets due to COVID-19.
- Evaluated whether the Postal Service followed policies and procedures for determining whether a company met the revenue threshold required for the extra services, such as specialized and customized packages for high volume customers.
- Determined the number of pieces (and cost) of Political and Election Mail sent as Marketing Mail, that was delivered at a First-Class Mail service standard.
- Reviewed the costs of printing and postage for COVID-19 postcards and how the Postal Service might be reimbursed.
- Analyzed data from the EDW, Product Tracking System, and DOIS for Sunday package delivery.

We conducted this performance audit from April 2020 through April 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 February 2, 2021 and included their comments where appropriate.

We assessed the reliability of the Postal Service's DOIS, EDW, Franked Mail Reporting System, Informed Visibility, Official Mail Accounting System, and MTEOR systems by interviewing knowledgeable agency officials, reviewing

³⁴ Most topics include a scope of FYs 2015-2019. However, we examined COVID-19 impacts on mail to the Freely Associated States, free packaging supplies, MTE to commercial mailers, and government mail for FY 2020. Additionally, our scope included Election and Political Mail through July 31, 2020.

related documentation, and testing for completeness by recalculating the data and comparing it to other related data. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Expedited Packaging Supplies Program Costs</i>	Assess whether the Postal Service is effectively achieving EPS Program objectives, controlling program costs, and accurately attributing costs to products.	19-009-R21	10/21/2020	\$92,000
<i>Military, Diplomatic, and Other International Election Mail</i>	Evaluate the Postal Service's preparedness for processing international Election Mail, including military and diplomatic mail.	20-271-R20	9/30/2020	None
<i>Processing Readiness of Election and Political Mail During the 2020 General Elections</i>	Evaluate the Postal Service's readiness for timely processing of Election and Political Mail for the 2020 general elections.	20-225-R20	8/31/2020	None
<i>Maintaining Rural Retail Networks: Best Practices Abroad and their Implications for the U.S. Postal Service</i>	Study how the national posts of Australia, Canada, France, Germany, Sweden, and the UK maintain extensive networks of rural postal offices.	RISC-WP-20-003	3/25/2020	None
<i>U.S. Postal Service Transportation Cost of Mail Transport Equipment</i>	Assess the Postal Service's efforts to reduce transportation costs of MTE in the MTEESC Network.	19XG007NL000-R20	12/13/2019	\$2.8 million
<i>Service Performance of Election and Political Mail During the 2018 Midterm and Special Elections</i>	Evaluate the Postal Service's performance in processing Election and Political Mail for the 2018 midterm and special elections.	19XG010NO000-R20	11/4/2019	None
<i>Compacts of Free Association: Actions Needed to Prepare for the Transition of Micronesia and the Marshall Islands to Trust Fund Income</i>	Review issues related to the Federated States of Micronesia's and Republic of Marshall Islands' transition from compact grant assistance to relying on income from the compact trust funds.	GAO-18-415	5/17/2018	None
<i>Delivery Charge Codes</i>	Assess the reliability and accuracy of Time and Attendance Collection System data for city carrier labor costing.	CP-AR-18-002	1/19/2018	None
<i>Revenue Forgone</i>	Examine revenue forgone for discounted and free public services mandated by Congress.	FT-AR-16-006	6/3/2016	\$1.6 billion
<i>Mail Transport Equipment Service Centers - Nationwide Assessment</i>	Assess MTEESC network controls and transportation from a nationwide standpoint to include the 11 remaining MTEESCs.	NO-AR-16-004	11/19/2015	\$4.9 million
<i>Government Mail</i>	Evaluate Postal Service's opportunities to increase government mail revenue.	MS-MA-15-005	4/24/2015	\$81.8 million

Appendix B: Management's Comments



March 22, 2021

JOSEPH WOLSKI
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Uncompensated and Undercompensated Services
(Project Number 20-208)

Thank you for the opportunity to review and comment on the Office of Inspector General (OIG) audit report, *Uncompensated and Undercompensated Services*.

Management agrees with the audit's findings that the Postal Service provides certain governmental services for which we have not been fully reimbursed. The Postal Service has sought reimbursement for these activities—specifically the costs of providing service to the Freely Associated States (FAS), and for revenue forgone for free and reduced-rate mail – pursuant to the available authorities, and we will continue to do so. In particular, Postal Service management is educating counterparts at the State Department, the Department of the Interior and the National Security Council about the financial challenges raised by the provision of postal services to the FAS, and we have developed proposals for providing sustainable service to the region.

In addition, each year, including this year, the Postal Service requests from Congress full reimbursement of the revenue forgone amounts authorized under 39 U.S.C. 2401(c)-(d), and throughout the year we are in regular contract with the Appropriations Committee to request full funding. Our pursuit of this reimbursement is most recently evidenced by the testimony that was provided by the Postmaster General at the March 11, 2021 hearing of the House Appropriations Subcommittee on Financial Services and General Government.

In that testimony, the Postmaster General emphasized that the Postal Service is an independent establishment which by design is supposed to be self-sustaining, and that in concept we are required to fund our operations and to fulfill our public service mission through the sale of our products and services. He also noted the common misperception that the Postal Service is supported by taxpayer dollars, and reiterated that to the contrary, with a few narrow exceptions, the expectation that is built into law is that we will run our business efficiently and in a manner that produces enough revenue to pay our own way.

Of course, one such narrow exception is that when Congress created the Postal Service in 1970, it pledged to appropriate funds to pay the cost of certain subsidized postage that it deemed worthy of public support, such as free mail for the blind and overseas voting. The Postmaster General stated that he viewed this promise by Congress as consistent with the mandate that we be self-sustaining, since if Congress required us to undercharge for certain services or to provide other services for free for valid public policy reasons, then the

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Congress should pay for those services or make up the difference. For that reason, in his written testimony the Postmaster General detailed our Fiscal Year 2022 budget submission and reiterated our request for reimbursements which total \$330 million and include revenue foregone amounts.

Ultimately, however, whether the Postal Service receives full reimbursement for these amounts is outside of our control. For instance, it is within Congress's discretion as to how much money to appropriate under the authorizations set forth in 39 U.S.C. 2401, and while management has and will continue to request full funding each year, it cannot control how much is actually appropriated.

On the other hand, as noted above, we remain dedicated to the bedrock principle which underlies the formation of the modern Postal Service that we should be self-sufficient when it comes to the achievement of our universal service obligation (USO), and therefore that those costs should be funded through Postal Service revenues, rather than through annual appropriations. While OIG points to the fact that the Postal Service requested funding related to COVID-19 as a reason for perhaps changing this policy position, the pandemic constituted extraordinary circumstances, and is thus fundamentally different from whether the Postal Service should receive annual appropriations to achieve our universal service mission. To achieve this goal of self-sufficiency for the long-term, the Postal Service is developing a comprehensive strategic plan that proposes legislative and administrative reforms, as well as our own efforts to increase revenues and reduce costs, to ensure that we can achieve our universal service mission in a financially sustainable manner. Implementation of this plan would allow the Postal Service to remain self-sufficient, which as noted is an obligation to which we are fully committed.

Regarding the discussion of business services, management agrees that it is important to continually evaluate and pursue rational pricing and operational strategies, and that rates paid by customers should align to the services they receive. However, it is critical to note that simply because the Postal Service does not establish a specific rate or fee for a specific service does not mean that the costs of that service are unrecovered, or that the Postal Service is not pursuing an appropriate business strategy. Rather, such costs can be recovered through other rates or fees. In addition, there may be appropriate business or operational reasons to provide a certain service to customers, even if they not separately "paid for" in the direct sense that OIG discusses in the report.

Ultimately, the issues raised by OIG concern inter-related questions of pricing and operations: that is, how to optimally structure prices in the marketplace, and how to optimally structure operational practices to ensure efficient and timely handling of mail and packages. This, in turn, raises a number of business and operational considerations that are not discussed in OIG's report. For instance, while the Postal Service does not charge a specific fee for providing Mail Transport Equipment (MTE) to customers, the costs of MTE are attributed to products and are therefore essentially "baked in" to the prices for those products. Moreover, as OIG recognizes, the Postal Service receives significant operational benefits from mailers' use of MTE, meaning the Postal Service wants to incentivize such use because they enable our operations to run more efficiently. Therefore, considering whether the Postal Service is pursuing an optimal MTE strategy must consider more than simply the fact that specific fees are not separately levied.

In addition, when it comes to customized or specialized shipping supplies for package customers, or the costs of Sunday delivery (which is almost entirely attributed to the competitive side), it is also critical to note that these costs have been recovered by the Postal Service. In this regard, competitive products fully cover their attributable costs, and competitive products as a whole cover their group-specific incremental costs. Moreover, competitive negotiated service agreements (NSAs) with specific customers have been consistently found to cover their costs. Therefore, the Postal Service has been "fully compensated" for these activities, as determined by our independent regulator, the Postal Regulatory Commission.

The Postal Service also disagrees with the OIG's conclusions regarding the usage of carriers for Sunday delivery operations. Specifically, management and the OIG do not agree on the dataset needed to analyze the employee mix of workhours on Sunday correctly. For example, in Table 9 "FY2019 Non-Peak Sunday Straight Time Workhours Costs" the OIG displays that out of [REDACTED] total carrier workhours on non-peak Sundays, full-time regular carriers worked for [REDACTED]. However, our data sources show that out of [REDACTED] total carrier workhours on non-peak Sundays in FY2019, full-time regular carriers worked for [REDACTED]. Even if the analysis included the entire FY2019 fiscal year, including peak season, out of [REDACTED] total city carrier hours, full-time regular city carriers only worked [REDACTED].

While the OIG was informed that the DOIS data used for this report was designed primarily for management of letter routes and was not complete for Special Purpose Routes (SPRs), it continued to assume that Sunday Delivery was not part of SPRs and the Sunday data it used was sufficiently reliable. In subsequent discussions after the draft report was released, management suggested the OIG review Docket RM2019-6, Proposal One, where the Postal Service proposed a new costing methodology for SPRs, including Sunday Delivery. Note that while the OIG's assumption that Sunday Delivery is not part of SPR is incorrect, this discrepancy alone is not sufficient to explain all of the differences between the two conclusions.

Finally, when it comes to Political and Election Mail, we understand, and continue to take great pride in, our important role in the electoral process. The Postal Service therefore pursues steps to ensure that such mail is delivered in an expeditious fashion. This is discussed further in response to OIG's recent report on election mail service performance. As noted therein, the Postal Service is continuing with its investigation into the creation of a separate Election Mail product.

Recommendation 1

We recommend the Vice President, Government Relations and Public Policy, in coordination with the General Counsel and Executive Vice President, explore strategies for receiving amounts owed or appropriated for government services and providing the Postal Service reimbursement for these services going forward.

Management Response

Management partially agrees with this recommendation. The Postal Service is pursuing strategies to ensure that it is reimbursed for costs incurred in providing services to the FAS. The Postal Service will also continue to seek full reimbursement of all amounts authorized by 39 U.S.C. 2401(c)-(d) for services rendered. In addition, the Postal Service also recently

submitted an Advance Request to the Department of Treasury under the CARES Act that includes the costs of providing the COVID-19 mailer. However, the Postal Service Board of Governors does not agree at this time that it is appropriate to request an appropriation for USO costs under 39 U.S.C. 2401(b). In that regard, and as noted above, the Postal Service remains committed to fulfilling our obligation that we should be self-sufficient when it comes to the achievement of our USO, and therefore that those costs should be funded through Postal Service revenues, rather than through annual appropriations.

Target Implementation Date

Ongoing and we will provide an update on our efforts in this regard by December 31, 2021.

Responsible Official

Peter Pastre, Vice President, Government Relations and Public Policy
Thomas Marshall, General Counsel and Executive Vice President

Recommendation 2

We recommend the Chief Retail and Delivery Officer and Executive Vice President and the Vice President, Processing and Maintenance Operations, evaluate opportunities to adjust provisions involving business customers to ensure only services paid for are provided.

Management Response/Action Plan

Management partially agrees with this recommendation. The Postal Service has, and will continue to, evaluate opportunities to ensure appropriate alignment between prices and the services provided to customers, based on consideration on all relevant business and operational considerations, such as staffing, volumes, and other working conditions. This is a cross-functional endeavor, requiring the input not only of operational personnel, but also of Marketing, Pricing, and other functions. While as noted above the Postal Service agrees that rates paid by customers should align to the services they receive, there may be circumstances in which it makes business or operational sense to handle particular mail or package volume in a certain way even if the specific service is not separately "paid for".

Target Implementation Date

Ongoing, and we will provide an update on our efforts in this regard by December 31, 2021.

Responsible Official

Sharon Owens, Vice President, Pricing
Joshua Colin, Vice President, Delivery Operations
Mike Barber, Vice President, Processing and Maintenance Operations

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