



Office of Inspector General | United States Postal Service

Audit Report

Shipping Services Contract Compliance

Report Number 20-315-R22 | October 19, 2021



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Highlights

Objective

Our objective was to assess contractual compliance and oversight of the Parcel Select shipping services contract with [REDACTED] (customer).

A Negotiated Service Agreement (NSA) is a contractual agreement between the U.S. Postal Service and a specific mailer. An NSA provides the mailer with customized pricing based on volume commitments, has specified terms and conditions, and may include modifications to current mailing standards and other postal requirements.

On [REDACTED], the Postal Service signed a 3-year nationwide NSA shipping services contract with the customer. The contract applies to Parcel Select and Parcel Return Service packages (contract packages) delivered to:

- [REDACTED], which are local post offices that deliver packages directly to the mail recipients. The customer is currently using the program in [REDACTED] and plans to expand to other parts of the country.
- [REDACTED] which are mail processing centers that sort mail and transport it to local post offices, are located nationwide. The customer primarily used [REDACTED] in Quarter 4, calendar year (CY) 2020, during peak season.

In CY 2020, the customer shipped about [REDACTED] contract packages through [REDACTED] and about [REDACTED] packages through [REDACTED]. From January 1 through June 30, 2021, the customer shipped about [REDACTED] packages through [REDACTED] and about [REDACTED] packages through [REDACTED]. To date this contract has generated over [REDACTED] in revenue for the Postal Service.

The contract includes requirements pertaining to mailing standards, package weight, data and label elements, [REDACTED], volume estimation, price calculation and adjustment, delivery unit and sectional center facility mix percentages, fuel fees, business reviews, and record keeping. The customer transmits manifest details, including package weight, dimensions, shipping, and postage information to the Postal Service daily.

Findings

The customer complied with 13 of 15 contract requirements we reviewed such as those covering [REDACTED] and [REDACTED] mixed percentages, data elements, fuel fees, and [REDACTED]. However, the customer did not always adhere to the mailing standards and package dimensional weight requirements. Specifically, the customer did not always prepare pallets and packages in accordance with the mailing standards in the *Domestic Mail Manual*, as required by the contract. At the six delivery units visited, the customer:

- Prepared pallets that exceeded the maximum height allowed, making it difficult and unsafe for Postal Service employees to reach packages at the top.
- Placed heavy packages on top of smaller packages, crushing smaller packages underneath.
- Used packing tape that did not always sufficiently adhere to packages, which required Postal Service employees to retape the packages.
- Used mailing boxes too large for the contents and did not use cushioning to prevent movement, thereby causing packages to get crushed.
- Packaged multiple liquids without secured caps, resulting in liquids leaking and spilling on other packages, thereby damaging boxes or fading out labels.
- Placed too many items in boxes, making them very heavy and damaging them.

Postal Service personnel who managed the contract did not adequately monitor the customer's packaging at the [REDACTED] and facilities personnel at the delivery units we visited did not have an effective way to report issues as they occurred; therefore, these issues continued to occur. This also resulted in additional workload to Postal Service personnel as they had to retape, repack, or return damaged packages to the customer. Employees are at an increased safety risk when handling improperly prepared pallets and packages.

In addition, the customer provided incorrect information for dimensional weight in the manifest data. Specifically, the customer:

- Calculated dimensional weight for packages by applying a dimensional weight divisor (divisor) of 166 when they should have applied a divisor of [REDACTED] per the contract. Since the customer used a lower divisor, the dimensional weight calculated was overstated.
- Submitted a dimensional weight for packages of [REDACTED] or less, causing the Postal Service system to erroneously consider the dimensional weight when calculating postage. Per Postal Service guidelines, actual weight should be used to calculate postage for packages of [REDACTED] or less, not dimensional weight.

These issues resulted in the customer paying higher postage than required by the contract. We analyzed payment data for Quarter 3, CY 2020, and found that [REDACTED] transactions (30 percent) had incorrect postage due to the customer using the wrong divisor or submitting the dimensional weight, totaling [REDACTED] in overpayments, or 1.5 percent of total postage paid.

Finally, the Postal Service can improve future contracts by including specific terms and conditions for yearly volume commitments. The contract states the customer will commit in good faith to ship at least [REDACTED] contract packages in CY 2020 and [REDACTED] in CY 2021. It includes [REDACTED]

[REDACTED] As the Postal Service expands the program nationwide, it becomes more critical to clearly define and enforce contract terms and conditions to cover costs and ensure profitability.

Recommendations

We recommend management:

- Reiterate the *Domestic Mail Manual's* required mailing standards to the customer.
- Monitor the customer's packaging of mail to ensure they are following the required standards.
- Develop a mechanism for facilities personnel to report mail packaging issues and concerns regarding the customer.
- Inform the customer of dimensional weight issues.
- Request that the customer discontinue submitting dimensional weight information for packages of [REDACTED] or less.
- Consider evaluating the volume quarterly and modifying the pricing structure; and including terms and conditions to ensure the customer achieves yearly volume commitments in future contracts.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

October 19, 2021

MEMORANDUM FOR: JACQUELINE KRAGE STRAKO
CHIEF COMMERCE AND BUSINESS SOLUTIONS
OFFICER AND EXECUTIVE VICE PRESIDENT

Lorie Nelson

FROM: Lorie Nelson
Acting Deputy Assistant Inspector General
for Finance and Pricing

SUBJECT: Audit Report – Shipping Services Contract Compliance
(Report Number 20-315-R22)

This report presents the results of our audit of the U.S. Postal Service's Shipping Services Contract Compliance.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Luisa Gierbolini, Acting Director, Finance, 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 the U.S. Postal Service's shipping services contract with [REDACTED] (customer) (Project Number 20-315). Our objective was to assess contractual compliance and oversight of the Parcel Select shipping services contract with the customer. See [Appendix A](#) for additional information about this audit.

Background

A Negotiated Service Agreement (NSA) is a contractual agreement between the Postal Service and a specific mailer. An NSA provides the mailer with customized pricing based on volume commitments, has specified terms and conditions, and may include modifications to current mailing standards and other postal requirements. NSAs must be reviewed and recommended by the Postal Regulatory Commission (PRC)¹ and approved by the U.S. Postal Service Board of Governors. The PRC reviews competitive product² prices to ensure each product covers its attributable costs,³ does not cause market dominant products⁴ to subsidize competitive products, and contributes to the Postal Service's institutional costs.⁵

In [REDACTED], the Postal Service signed a 3-year nationwide NSA shipping services contract (contract)⁶ with the customer. The contract applies to the customer's Parcel Select⁷ and Parcel Return Service⁸ packages (contract packages) delivered to [REDACTED]⁹ and [REDACTED].¹⁰

- For deliveries to [REDACTED], the customer drops off pallets sorted by five-digit ZIP Code directly at the delivery unit each morning before 8:00 a.m. The Postal Service then delivers the contract packages the [REDACTED] or attempts to deliver directly to local customers. The customer is currently using the program in [REDACTED] and plans to expand to other parts of the country.
- For deliveries to [REDACTED], the customer drops off pallets sorted by the first three digits of the ZIP Code at the appropriate sectional center facility each morning before 9:00 a.m. The Postal Service then sorts the contract packages by the five-digit ZIP Code and places them on existing Postal Service transportation routed to delivery units for next-day delivery. [REDACTED] are located nationwide. The customer primarily used this program in Quarter (Q) 4, CY 2020, during peak season.

The contract between the Postal Service and the customer included requirements pertaining to mailing standards, package weight, data and label elements, [REDACTED], volume estimation, price calculation and adjustment, delivery unit and sectional center facility mix percentages, fuel fee, business reviews, and record keeping. The customer used the Electronic Verification System (eVS)¹¹ to electronically transmit manifest details, including package weight, dimensions, shipping, and postage information to the Postal Service.

Regarding the volume commitment, the customer agreed to provide the Postal Service at least [REDACTED] contract packages in CY 2020 and [REDACTED] contract packages in CY 2021 and to pay the contract postage prices over those two years. Pricing for CY 2022 and subsequent contract years will increase or

1 An independent federal agency that promotes transparency and accountability of the Postal Service's operations.

2 Products and services for which similar products and services are offered by private sector carriers.

3 Direct and indirect Postal Service costs that can be clearly associated with a particular mail product.

4 Products and services over which the Postal Service exercises sufficient market power that it can effectively set their price with limited competition.

5 Postal costs that cannot be directly or indirectly assigned to any mail class or product.

6 *Shipping Services Contract Between the United States Postal Service and [REDACTED] Regarding Parcel Select Service and Parcel Return Service*, effective [REDACTED].

7 Parcel Select is the registered trademark name for the Postal Service's economical ground delivery service for packages entered in bulk, including those entered at destination facilities. It is designed for and generally used by large- and medium-sized parcel shippers.

8 Parcel Return Service is a service that makes it easier for consumers to return mail and Internet order merchandise at competitive rates for merchants. The shipping services customer is not currently utilizing this service and does not have plans to start utilizing it in calendar year (CY) 2021.

9 A delivery unit, a local post office, is the final stop in the Postal Service network that a package takes prior to delivery.

10 A postal facility where a mailer enters mail directly and the Postal Service sorts and transports the mail to the appropriate delivery unit for delivery.

11 A manifesting system which allows parcel mailers to document and pay postage by transmitting electronic manifest files to the eVS database, which is part of the PostalOne! system.

decrease based on the volume growth percentage compared to the same period the prior year.

In CY 2020, the customer shipped about [REDACTED] contract packages through [REDACTED] and about [REDACTED] contract packages through [REDACTED]. From January 1 through June 30, 2021, the customer shipped about [REDACTED] packages through [REDACTED] and about [REDACTED] packages through [REDACTED]. To date this contract has generated over [REDACTED] in revenue for the Postal Service.

Findings Summary

The customer complied with 13 of 15 contract requirements we reviewed including those covering sectional center facilities and delivery unit mixed percentages, data elements, fuel fees, and [REDACTED]

However, the customer did not always adhere to the mailing standards and package dimensional weight requirements. In addition, there is an opportunity to improve the contract regarding volume commitment. See [Table 5](#) for a complete list of requirements tested.

Finding #1: Mailing Standards

The customer did not always prepare pallets and packages in accordance with mailing standards in the *Mailing Standards of the United States Postal Service, Domestic Mail Manual* (DMM), as required by the contract. We visited six delivery units to observe the acceptance and processing of the customer's contract packages and found numerous issues related to mailing standards, as shown in Table 1.

Table 1. Mailing Standards Issues Identified at Delivery Units

Issue Identified	[REDACTED] Carrier Annex	[REDACTED] Carrier Annex	[REDACTED] Annex	[REDACTED] Post Office	General Mail Facility [REDACTED] Post Office	[REDACTED] Post Office
Pallet exceeding maximum height	X	X	X	X	X	X
Heavy packages on top of pallets	X	X	X	X	X	
Packages not taped securely	X	X	X	X	X	X
Boxes too large for contents	X	X	X	X	X	
Packages with multiple liquids without secured caps	X	X	X	X	X	X
Boxes too heavy and overpacked	X	X	X	X	X	

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

Specifically, we identified issues where the customer:

- Prepared pallets that exceeded the maximum height allowed for contract packages entered at all six [REDACTED]. The DMM states for all contract packages entered at a delivery unit, the height of the pallet box may not exceed 60 inches.¹² We witnessed that many pallets were over 60 inches in height. The example in Figure 1 shows a pallet with a height of 88 inches.

Figure 1. Pallet Exceeding Maximum Height Requirement



Source: [REDACTED] Carrier Annex, April 20, 2021.

Pallets exceeding the maximum height make it difficult for employees to reach packages at the top of the pallet or transport the pallet from the dock through the facility doorway since packages would topple off. We observed instances where packages fell on an employee as they unwrapped the pallet (see Figure 2).

Figure 2. Overloaded Pallets



Source: General Mail Facility [REDACTED] Post Office, April 22, 2021.

- Placed heavy packages on top of smaller packages, crushing the smaller packages underneath, as shown in Figure 3. The DMM requires the mailer to package mailpieces to be able to withstand normal transit and handling without damage to other mail.¹³

¹² DMM 705 – *Advanced Preparation and Special Postage Payment System, Preparing Pallets*, Section 8.4.2, Heights, dated December 27, 2020.

¹³ DMM 600 – *Basic Standards For All Mailing Services*, Section 3.1, General.

Figure 3. Heavy Packages on Top of Pallet - Crushed Packages Underneath



Source: [REDACTED] Post Office, April 21, 2021.

- Used packing tape that did not always sufficiently adhere to packages, as shown in Figure 4. The DMM requires the adhesive on gummed tapes to be adequately activated before application and firmly applied.¹⁴ As a result, Postal Service employees had to retape the packages.

Figure 4. Packages Not Taped Securely



Source: [REDACTED] Post Office, April 21, 2021 General Mail Facility [REDACTED] Post Office, April 22, 2021.

¹⁴ DMM 600, Section 3.10, Tape and Tape Size.

¹⁵ DMM 600, Section 3.9, General Cushioning Standards.

¹⁶ DMM 600, Section 3.4, Liquids.

- Used mailing boxes that were too large for the contents without using cushioning to prevent movement as shown in Figure 5. The DMM states when multiple items are inside a single mailing container, mailers must cushion items to protect them from each other and from external forces.¹⁵ When the customer prepares packages without proper cushioning, the package can be crushed if heavier packages are placed on top.

Figure 5. Box Too Large for Content



Source: [REDACTED] Post Office, April 21, 2021.

- Packaged multiple liquids without secured caps, resulting in liquids leaking and spilling on other packages, damaging boxes, or fading labels (see [Figure 6](#)). The DMM states that mailers must package and mail liquids by using screw-on caps with a minimum of one and one-half turns, soldering, clips, or similar means to close primary containers containing liquids.¹⁶

Figure 6. Packages with Multiple Liquids and Faded Labels Due to Liquids Leaking



Source: General Mail Facility [REDACTED] Post Office, April 22, 2021, [REDACTED] Post Office, April 23, 2021.

- Placed too many items in boxes making them very heavy, thereby causing damage. We observed some packages were severely damaged and could not be sent to the addressee, as shown in Figure 7. The DMM requires mailers to package mailpieces to withstand normal transit and handling without breakage or deterioration of contents, package breakage, injury to Postal Service employees, or damage to other mail.¹⁷

Figure 7. Damaged Packages Due to Improper Packing



Source: General Mail Facility [REDACTED] Post Office, April 22, 2021.

Although Postal Service personnel discussed and agreed with package preparation requirements during initial contract negotiations with the customer, the customer did not always follow the mailing standards. In addition, Postal Service personnel who managed the contract did not adequately monitor the customer's packaging at [REDACTED]. Further, they did not have a mechanism in place for delivery unit personnel to report issues and concerns related to these contract packages. According to facilities personnel at the delivery units we visited, there was not an effective way to report issues as they occurred. They stated that they informed district management of the issues but have received no response.

Without proper monitoring of customers' mail packaging at [REDACTED] or a means for personnel to report issues, they continue to occur. This also resulted in additional workload to Postal Service personnel as they had to retape, repack, or return damaged packages to the customer. Employees are at an increased safety risk

¹⁷ DMM 600, Section 3.1 General.

when handling pallets and packages that are not properly prepared as they could cause injuries resulting in workers' compensation liability claims.

Recommendation #1

We recommend the **Vice President, Business Development**, direct the **Director, Enterprise and Key Accounts**, to reiterate to the customer the required mailing standards in the *Domestic Mail Manual*.

Recommendation #2

We recommend the **Vice President, Business Development**, direct the **Director, Enterprise and Key Accounts**, to monitor customers' packaging of mail to ensure required mailing standards are followed.

Recommendation #3

We recommend the **Vice President, Business Development**, direct the **Director, Enterprise and Key Accounts**, to develop a mechanism for facilities personnel to report issues and concerns regarding mail packaging from the customer.

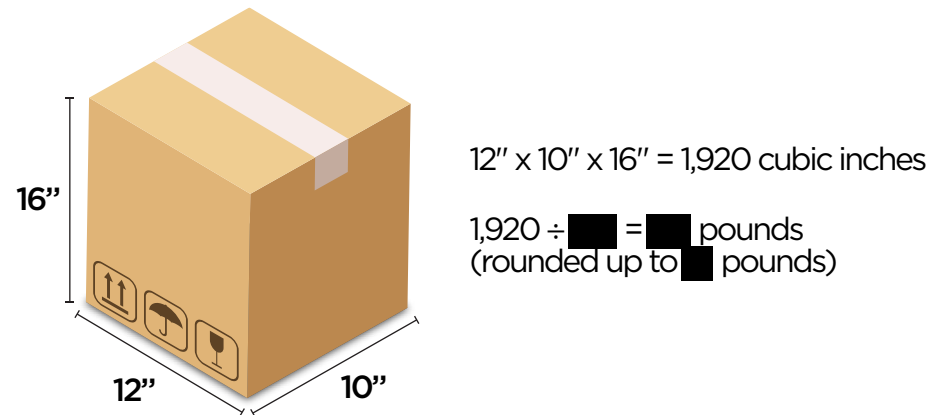
Finding #2: Package Dimensional Weight

The customer used an incorrect dimensional weight divisor (divisor) to calculate dimensional weight for contract packages that exceeded [REDACTED]. In addition, the customer submitted a dimensional weight to the Postal Service for packages of [REDACTED] or less, so eVS considered it when calculating postage. According to the contract, the customer will use a divisor of [REDACTED] for contract packages that exceed [REDACTED]. Postage for these packages will be based on the dimensional weight or the actual package weight, whichever is greater. Further, according to eVS guidelines,¹⁸ actual weight is used to calculate postage for packages of [REDACTED] or less, rather than the dimensional weight. However, the customer calculated dimensional weight for all packages using a divisor of 166.¹⁹

Dimensional weight is the cubic size of a package. It is used to determine postage and is calculated by multiplying the length, height, and width of the package divided by a divisor.

In Figure 8, a contract package measuring 12" x 10" x 16" and using a divisor of [REDACTED] will have a dimensional weight of [REDACTED] pounds based on the following calculation:

Figure 8. Dimensional Weight Calculation



Source: OIG dimensional weight calculation example using contract divisor.

The customer transmits manifest data to the Postal Service daily. The data includes package weight and dimensions, postage, and other package information. Upon receiving the data, eVS recalculates the dimensional weight based on the dimensions included in the customer's manifest data and determines the postage using the highest of these three weights:

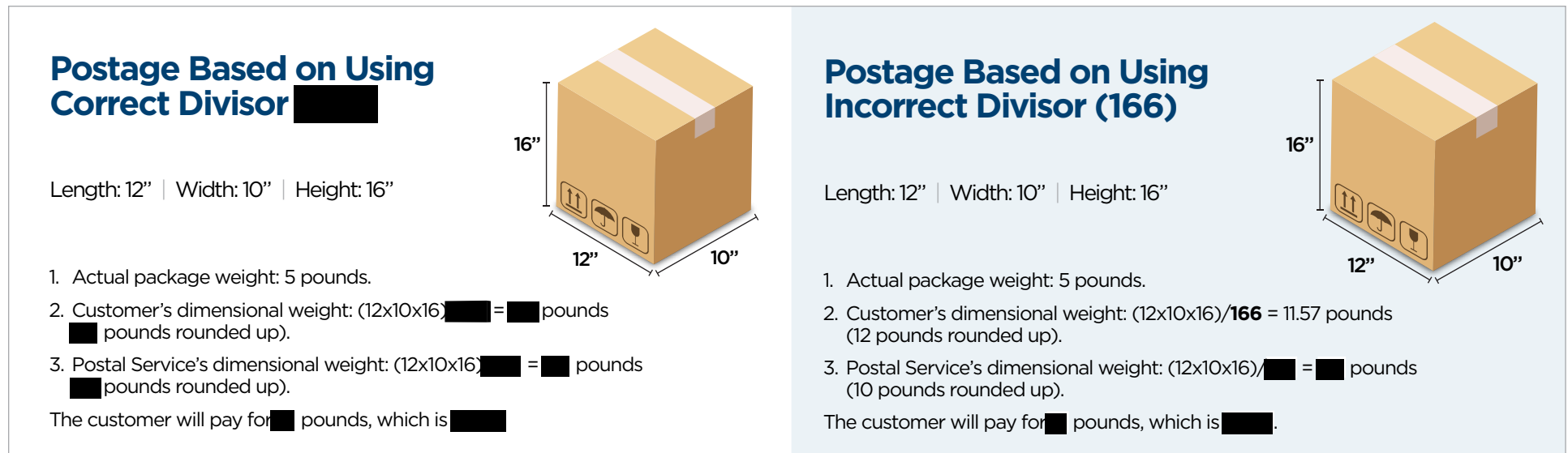
1. Actual package weight transmitted by the customer.
2. The customer's calculated dimensional weight.
3. The Postal Service's recalculated dimensional weight.

¹⁸ *Electronic Verification System (eVS) Business and Technical Guide*, Section 1.4.4 d (e), dated May 1, 2020.

¹⁹ Divisor 166 is used by Parcel Select mailers to determine dimensional weight for rectangular and nonrectangular parcels per the DMM, updated December 27, 2020, Section 253, Prices and Eligibility.

Using the highest weight resulted in the customer paying higher postage than required by the contract when the dimensional weight was greater than the actual package weight, as shown in Figure 9.²⁰

Figure 9. Postage Difference



Source: OIG examples using CY 2020 postage rates.

Sometimes when the customer submitted dimensional weight for smaller packages, their calculation erroneously exceeded pounds due to using the wrong divisor and rounding of the dimensional weight.²¹ Therefore, eVS treated these packages as if they were over pounds and selected the highest weight for postage calculation.²²

This also resulted in the customer paying higher postage than required by the contract where the dimensional weight submitted was greater than the actual package weight. According to the Postal Service, for packages of pounds or less, the customer should submit zero for the dimensional weight as it is not

applicable. Had the customer submitted zero for the dimensional weight, this issue would not have occurred.

Because of the dimensional issues, the customer overpaid the Postal Service for contract packages. We analyzed payment data for Q3, CY 2020, which included transactions totaling pounds . We found that transactions (30 percent) had incorrect postage due to the customer using the wrong divisor or submitting the dimensional weight, totaling pounds in overpayments or 1.5 percent of total postage paid, as shown in Table 2. We consider these overpayments Refundable Revenue.²³

²⁰ We verified that the Postal Service calculated the correct postage based on data the customer provided and the Postal Service's recalculated dimensional weight.

²¹ For example, the customer submitted a package with dimensional weight of 8.16 pounds which was transmitted as 9 pounds.

²² eVS recalculates the dimensional weight using the package dimensions. It selects the higher of the customer's dimensional weight and eVS calculated dimensional weight to determine package size. Since the customer's dimensional weight was higher, eVS selected the customer's dimensional weight calculation.

²³ Amounts the Postal Service may owe to customers who have overpaid for a service or product.

Table 2. Q3, CY 2020 Transactions

Period	Total Records	Total Postage Paid	Records with Exceptions			
			Count	Percentage of Total Records	Amount Overpaid	Percentage of Total Postage Paid
July	██████	██████	██████	28%	██████	1.4%
August	██████	██████	██████	28%	██████	1.4%
September	██████	██████	██████	34%	██████	1.7%
Total	██████	██████	██████	30%	██████	1.5%

Source: OIG analysis.

These issues have occurred since the beginning of the contract. We did not determine why the customer used the incorrect divisor or included dimensional weight information for packages of ██████ or less. Our testing focused on whether the customer paid the correct postage. Before our audit, the Postal Service was not aware of the dimensional weight issues and stated that it is up to the customer to provide correct data. Informing the customer about the issues would enhance the Postal Service's goodwill.

Recommendation #4

We recommend the **Vice President, Business Development**, direct the **Director, Enterprise and Key Accounts**, inform the customer about the dimensional weight issues.

Recommendation #5

We recommend the **Vice President, Business Development**, direct the **Director, Enterprise and Key Accounts**, request that the customer discontinue submitting dimensional weight information for packages of ██████ or less.

Finding #3: Volume Commitment Terms and Conditions

The Postal Service can improve future contracts by including specific terms and conditions for yearly volume commitments. The contract states the customer will commit in good faith to ship at least ██████ contract packages in CY 2020 and ██████ in CY 2021. It includes ██████ (see [Table 5 in Appendix A](#)), ██████

The Postal Service and the customer agreed to special pricing based on the expectation the customer would meet the volume commitments. When the customer does not meet its committed volume, the Postal Service may not reach full revenue potential or cover its institutional costs.

In CY 2020, the customer met the volume commitment; however, most of the volume —about 77 percent of the total — occurred in Q4 (see [Table 3](#)).

24 Of the ██████ records with exceptions, ██████ were due to using an incorrect divisor. The other ██████ were due to the dimensional weight applied to packages of ██████ or less.

Q1 (Jan - Mar)	Q2 (Apr - Jun)	Q3 (Jul - Sept)	Q4 (Oct - Dec)
████	████	████	████

As of June 2021, the customer only shipped about [REDACTED] contract packages, as shown in Table 4.

Month	Volume
January	
February	
March	
April	
May	
June	
Total	

Based on the current trend, the customer must increase their volume significantly during the last two quarters of the calendar year, especially during the holiday season, in order to meet their good faith volume commitment. However, handling significant volume during the holiday season instead of spreading the volume throughout the year could negatively affect the Postal Service's delivery performance. If the Postal Service evaluated volume quarterly, it could encourage volume consistency throughout the year and incentivize through modified pricing structures.

We recommend the **Vice President, Business Development**, direct the **Director, Enterprise and Key Accounts**, to consider evaluating the volume quarterly and modifying the pricing structure; and including terms and conditions to ensure the customer achieves yearly volume commitments in future contracts.

Management agreed with recommendations 1 and 4 and the monetary impact, but disagreed with recommendations 2, 3, 5, and 6. Management noted that some reporting relationships and a job title referenced in the audit are no longer correct and modified the recommendations in their comments to reflect the current organizational structure.

Regarding recommendation 1, the Postal Service account owner planned to reiterate to the customer the required mailing standards defined in the DMM in a meeting scheduled for September 17, 2021. In subsequent correspondence, management confirmed that they reiterated the DMM standards to the customer.

Regarding recommendation 2, management disagreed with the recommendation assignment and noted that it was not within the scope of this audit but agreed that all customers must comply with DMM requirements regardless of NSA or published pricing.

Regarding recommendation 3, management stated that a process already exists for post offices to report issues and concerns. According to management, with implementation of this NSA, the [REDACTED] developed a communication process for all three [REDACTED] districts to report issues and concerns and the Strategic Account manager receives these communications and addresses them with the customer.

Regarding recommendation 4, management stated that they will inform the customer to correct their dimensional weight factor to accurately align with the NSA terms and conditions. The target implementation date is October 31, 2021.

Regarding recommendation 5, management disagreed with instructing the customer not to enter dimensional weight information for packages of less than [REDACTED] because the instructions dictate that the customer enter a zero for them.

Finally, regarding recommendation 6, management stated that existing contract terms require annual volume growth to retain discounted prices and earn annual price increase caps. There is a [REDACTED] termination for convenience clause in the contract should the Postal Service determine the customer is not progressing with volume growth.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 1, 4, and 5 and actions taken or planned should resolve the issues identified. We acknowledge that reporting relationships and job titles changed as a result of the Postal Service's recent reorganization and have updated the recommendations accordingly.

Regarding recommendation 2, management agreed that all customers should comply with DMM requirements; however, they did not address whether they would monitor the customer's packaging to ensure the customer followed those requirements. We continue to maintain that monitoring the customer's mail packaging at [REDACTED] is necessary to reduce workload and safety risks to

Postal Service employees. Therefore, we plan to pursue this issue through the audit resolution process.

For recommendation 3, although management maintains that processes and procedures exist in the [REDACTED] to report issues and concerns, managers were not always aware of this. During our visits to Postal Service [REDACTED] Customer Service managers at two facilities stated they did not have established processes or procedures for reporting packages damaged upon receipt. In addition, the Enterprise Accounts director stated that she did not have specific procedures for reporting issues pertaining to the customer's packaging from the field. Since packaging issues persist, management must ensure clear processes and procedures to report and resolve issues and concerns are in place and functioning. Therefore, we plan to pursue this issue through the audit resolution process.

Although management disagreed with recommendation 5, they agreed the dimensional weight should be zero for any packages less than [REDACTED]. We agree that submitting a dimensional weight of zero for packages of less than [REDACTED] will achieve the same result as discontinuing dimensional weight information for them. Management's action in response to recommendation 4 to inform the customer of dimensional weighting rules should encourage customer compliance.

For recommendation 6, we acknowledge that existing contract terms require annual volume growth to retain discounted prices and earn annual price increase caps. However, our issue relates to monitoring volumes within each year, not annual volume growth targets. As shown in the report, over three-fourths of the package volume from this customer in CY 2020 occurred from October through December, the Postal Service's busiest time of the year. A similar trend could occur in CY 2021 based on volume through June 2021. The purpose of the recommendation was for management to monitor volume more closely, and to encourage them to pursue alternate contract terms that would help even out volume trends throughout the year and avoid volume spikes during the busiest time of the year as the program expands nationwide. Good faith volume estimates are effective for initial agreements, but as expansion occurs, we continue to maintain that it becomes more critical to clearly define contract

terms and conditions. Therefore, we plan to pursue this issue through the audit resolution process.

Recommendation 4 requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendation 4 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. We consider recommendations 1 and 5 closed with the issuance of this report.

Appendices

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Appendix A: Additional Information

Scope and Methodology

The audit assessed the customer's compliance and Postal Service oversight of the Parcel Select shipping services contract requirements between the Postal Service and the customer.

To accomplish our objective, we:

- Reviewed the contract between the Postal Service and the customer.

- Reviewed Postal Service policies and procedures.
- Interviewed Postal Service officials involved with the contract and requirements.
- Reviewed the contract requirements (see Table 5 for the requirements reviewed).

Table 5. Contract Requirements Reviewed

Requirement		Summary
1	Mailing Standards	Except to the extent that different terms/prices are specified in the contract, applicable provisions of the DMM and other postal laws and standards apply to mail tendered under this contract.
2	[REDACTED]	[REDACTED]
3	[REDACTED]	[REDACTED]
4	Manifest	Manifest its contract packages as specified by the Postal Service using eVS or a successor system.
5	Label Elements	Print a human-readable carrier route number on each label, derived from the Postal Service data file.
6	[REDACTED]	[REDACTED]
7	Volume Estimation	Committed in good faith to ship at least [REDACTED] contract packages in CY 2020 and [REDACTED] contract packages in CY 2021.
8	Price Calculation	[REDACTED]
9	[REDACTED] Requirement	Beginning with the contract quarter running from July 1, 2020 through September 30, 2020, and for subsequent contract quarters, at least [REDACTED]
10	Annual Adjustment	Beginning in 2021 and for subsequent contract years, contract prices will adjust annually on the earlier of (a) the most recent change in rates of general applicability for competitive products or (b) February 1 of the same year.

Requirement		Summary
11	Dimensional Weight Divisor	Customer will use a dimensional weight divisor of [REDACTED] for its Parcel Select pound rated (non-lightweight) contract packages that exceed [REDACTED]
12	[REDACTED]	[REDACTED] [REDACTED] [REDACTED]
13	Fuel Fee	[REDACTED]
14	Business Reviews	Within [REDACTED] calendar days after the conclusion of each quarter in each contract year, jointly conduct a business review of volume of contract packages, weight and cube characteristics, time in transit, and other performance expectations under this contract either in person, by telecom or by webinar.
15	Recordkeeping and Audit	Customer shall respond to the Postal Service or its designated auditor's quarterly and/or yearly transaction confirmations related to Postal Service transactions.

Source: Shipping services contract between the Postal Service and the customer.

- Analyzed data for compliance requirements such as volume, weight, and postage paid.
- Selected six delivery units for site visits based on volume. We did not visit [REDACTED] as there was no activity during our audit timeframe.
- Interviewed delivery unit personnel and observed the acceptance and processing of customer's contract packages at these delivery units: [REDACTED] Carrier Annex, [REDACTED] Carrier Annex, [REDACTED] Carrier Annex, [REDACTED] Post Office, [REDACTED] Facility [REDACTED] Post Office, and [REDACTED] Post Office.

We conducted this performance audit from January through October 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 objectives. We discussed our observations and conclusions

with management on August 24, 2021, and included their comments where appropriate.

We assessed the reliability of payment data by verifying the transaction details, such as weight and postage amount, to data in the PostalOne! system²⁵ for data accuracy. In addition, we verified the number of transactions in our data to the monthly Account Summary statements in PostalOne! for data completeness. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG identified no prior audits or reviews related to the objective of this audit within the last five years.

²⁵ An information management system that provides an electronic linkage between a customer's mailing information and Postal Service business mail acceptance and induction processes.

Appendix B: Management's Comments

JACQUELINE KRAGE STRAKO
CHIEF COMMERCE AND BUSINESS SOLUTIONS OFFICER
EXECUTIVE VICE PRESIDENT



September 23, 2021

JOSEPH WOLSKI
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Management Response: Shipping Services Contract Compliance
(Report Number 20-315-DRAFT)

Thank you for providing the Postal Service with an opportunity to review and comment on the findings and recommendations in your audit of Shipping Services Contract Compliance.

As has been shared, the reporting relationships referenced in your audit are no longer correct. The Director, Enterprise & Key Accounts reports to the VP, Business Development under the Chief Commerce and Business Solutions Officer. As such the recommendations have been modified to reflect the organizational structures announced in May 2021.

Management also requests that the Vice President, Sales job title is replaced with Vice President, Business Development job title in the final report. Management also requests that all pictures of the customers packages that are included as exhibits be fully redacted to retain customers identity.

Management agrees with the monetary findings. The customer overpaid in the amount of [REDACTED]

Recommendation [1]:

We recommend the **Vice President, Business Development**, direct the **Director, Enterprise and Key Accounts**, to reiterate to the customer the required mailing standards in the Domestic Mail Manual.

Management Response/Action Plan:

Management agrees with this recommendation. The USPS account owner will reiterate to the customer the required mailing standards defined in the Domestic Mail Manual on a call scheduled for Friday, September 17, 2021. We would ask for consideration that this recommendation be closed with the issuance of the final report.

Target Implementation Date: 09/17/2021

Responsible Official:
Director, Enterprise and Key Accounts

Recommendation [2]:

We recommend the **Vice President, Business Development**, direct the **Director, Enterprise and Key Accounts**, to monitor the customer's packaging of mail to ensure required mailing standards are followed.

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-5005
WWW.USPS.COM

Management Response/Action Plan:

Management disagrees with this recommendation assignment. The recommendation is not within the scope of this audit. Compliance with DMM mailing standards is required for all shippers, not only those under contract.

Target Implementation Date: N/A

Responsible Official: N/A

Recommendation [3]:

We recommend the **Vice President, Business Development**, direct the **Director, Enterprise and Key Accounts**, to develop a mechanism for facilities personnel to report issues and concerns regarding mail packaging from the customer.

Management Response/Action Plan:

Management disagrees with this recommendation. A process already exists for post offices to report issues and concerns. With the implementation of this NSA, the [REDACTED] had developed a communication process for all three [REDACTED] Districts to report issues and concerns. The Strategic Account Manager receives these communications and addresses with the customer.

Target Implementation Date: N/A

Responsible Official: N/A

Recommendation [4]:

We recommend the **Vice President, Business Development**, direct the **Director, Enterprise and Key Accounts**, inform the customer about the dimensional weight issues.

Management Response/Action Plan:

Management agrees with this recommendation. USPS Enterprise & Key Account team will inform the customer that they must correct their dimensional weight factor to accurately align to the NSA terms and conditions.

Target Implementation Date: 10/31/2021

Responsible Official:

Director, Enterprise and Key Accounts

Recommendation [5]:

We recommend the **Vice President, Business Development**, direct the **Director, Enterprise and Key Accounts**, request that the customer discontinue submitting dimensional weight information for packages of [REDACTED] or less.

Management Response/Action Plan:

Management disagrees with this recommendation. Management disagrees with instructing the customer not to enter DIM weight for packages less than [REDACTED] because instructions dictate that they enter a zero. Evidence of this instruction can be provided in a separate document.

Target Implementation Date: N/A

Responsible Official: N/A

Recommendation [6]:

We recommend the **Vice President, Business Development**, direct the **Director, Enterprise and Key Accounts**, to consider evaluating the volume quarterly and modifying the pricing structure;

and including terms and conditions to ensure the customer achieves yearly volume commitments in future contracts.

Management Response/Action Plan:

Management disagrees with this recommendation. Existing terms in the contract require annual volume growth to retain discounted prices and earn annual price increase caps. There is a [REDACTED] termination for convenience clause in the contract should USPS determine the customer is not progressing with volume growth.

Target Implementation Date: N/A

Responsible Official: N/A

A handwritten signature in black ink, appearing to read "Jacqueline Krage Strako".

Jacqueline Krage Strako

cc: Manager, Corporate Audit Response Management

OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

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