



Office of Inspector General | United States Postal Service

Audit Report

Negotiated Service Agreement - Contract [REDACTED]

Report Number 20-317-R21 | May 19, 2021

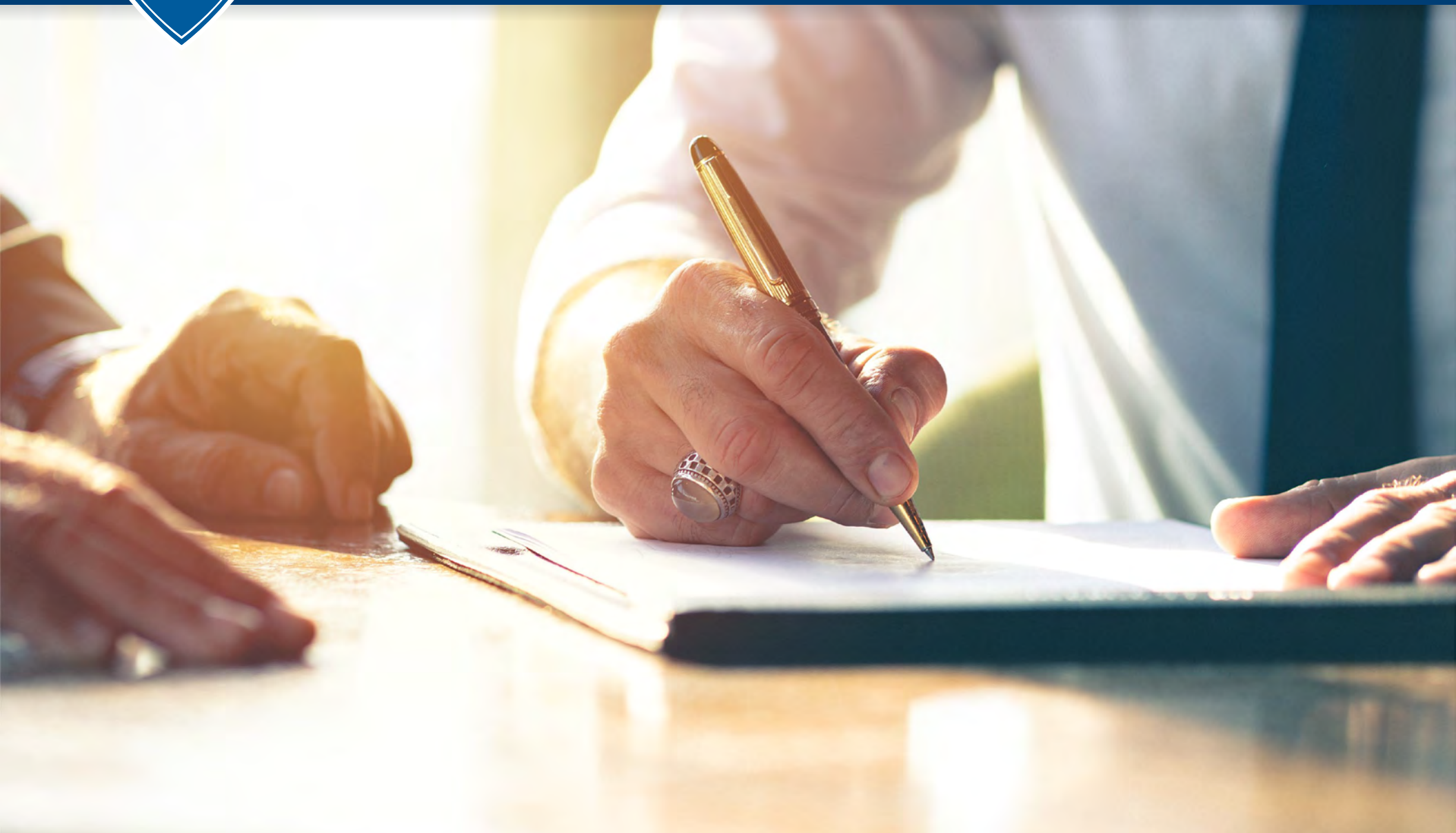


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Highlights

Objective

Our objective was to determine mailer compliance with Negotiated Service Agreement (NSA) provisions and evaluate the U.S. Postal Service's oversight of NSA Contract [REDACTED]. We selected the NSA based on the mailer's fiscal years (FY) 2019 and 2020 volume and revenue.

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

The Postal Regulatory Commission (PRC) must approve all NSAs. The Postal Service filed Priority Mail — Non-Published Rates Contract [REDACTED], with the PRC during Quarter 3, FY 2019. This one-year NSA, renewable for two additional years, provides special pricing for the mailer's Priority Mail weight/zone packages, Priority Mail Commercial Plus Cubic packages, Priority Mail Flat Rate Envelopes, and Priority Mail Small and Medium Flat Rate Boxes. In return, the mailer agreed to ship an agreed upon number of packages annually. The contract

also requires the mailer use an approved manifest system for payment, as well as several other key provisions.

The agreement stipulates that the contract expires one year from the effective date unless renewed by mutual agreement. The Postal Service allowed the contract to expire at the end of year one due to non-performance. We reviewed mail volume and Postal Service oversight in year one of the NSA ([REDACTED]).

Finding

The mailer was compliant with three of the four key agreement provisions we reviewed, including mail type, zone rates, and payment system. However, during the first year, the mailer did not comply with the annual volume commitment and shipped about [REDACTED] fewer packages than the required annual volume.

The Postal Service provided adequate oversight of the NSA, which included monthly meetings with the mailer to discuss contract performance and expectations. In addition, the Postal Service worked to resolve a service issue with the customer's mail pick-up. During the contract period, the customer shifted mail volume to Postal Service competitors and subsequently requested a new contract with a lower volume commitment. However, the Postal Service determined the contract would not be viable at lower commitment rates, so they chose to let it expire. As such, we will not make a recommendation in this report.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 19, 2021

MEMORANDUM FOR: SHAVON L. KEYS
VICE PRESIDENT, SALES (A)

Amanda H. Stafford

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

SUBJECT: Audit Report – Negotiated Service Agreement – Contract
[REDACTED] (Report Number 20-317-R21)

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

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

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the Negotiated Service Agreement (NSA) – Contract [REDACTED] (Project Number 20-317). Our objective was to determine whether the mailer complied with its NSA provisions and evaluate the oversight of the agreement. We selected the NSA based on the mailer’s 2019 and 2020 volume and revenue. We reviewed mail volume and U.S. Postal Service oversight in year one of the NSA ([REDACTED]). See [Appendix A](#) for additional information about this audit.

Background

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

Any mailer may apply for an NSA if the mailer meets the requirements in Domestic Mail Manual 709. In fiscal year (FY) 2020, there were 1,289 Competitive Domestic NSAs and four Market Dominant NSAs. While only a small fraction of Postal Service commercial package customers have NSAs, 40 percent of the Postal Service’s 5.5 billion domestic package volume is mailed under these agreements.

By law, the Postal Regulatory Commission (PRC) approves NSAs. Competitive products NSAs must generate enough revenue to cover the attributable costs¹ or those directly tied to fulfilling the product or service. The Postal Service must also demonstrate contribution to the Postal Service’s institutional costs² and that they are not subsidized by market dominant products.

In 2011, the PRC approved the addition of Priority Mail—Non-Published Rates to the competitive product list, to increase volume and revenue by offering customized Priority Mail prices while reducing the cycle time associated with

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

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

Negotiated Service Agreement (NSA)

In FY 2020, there were

1,289

**Competitive
Domestic NSAs**

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executing individual pricing agreements. A copy of each contract, along with the financial model inputs used to generate rates for each contract, must be filed with the PRC within a reasonable time (e.g., 10 days) of the effective date of each contract. In FY 2020, the PRC approved 267 Competitive NSAs and no Market Dominant NSAs.

The Postal Service filed Priority Mail—Non-Published Rates Contract [REDACTED] with the PRC during FY 2019 Quarter 3, and determined the rates established during the first year of the contract should cover its attributable costs. They also determined that contract price adjustment provisions would help ensure the contract covered attributable costs in subsequent years. The one-year NSA, renewable for two additional years, was effective [REDACTED] and included

four key provisions related to mail type, zone rates, payment system, and volume commitment. The first two key provisions provided special pricing for the mailer:

- The Postal Service and the mailer agreed that customized pricing could be used only for packages that were Priority Mail weight/zone that did not exceed [REDACTED] and were zoned priced;³ and Priority Mail cubic packages that did not exceed [REDACTED] and [REDACTED] and were zoned priced.
- The Postal Service and the mailer agreed the mailer could use customized pricing for Priority Mail flat rate envelopes and Priority Mail flat rate boxes (small and medium).

To receive special pricing, the mailer also had to adhere to these two key provisions:

- Use an approved payment method.
- Mail a specified number of packages annually.

To determine whether a potential customer would be able to meet the volume commitment prior to the start of the contract, the Sales team annualizes a one-month sample of package shipping data provided by the customer. This snapshot shows their actual competitor shipping volume and gives a basis for the contract volume commitment.

Once in effect, Sales manages the contract by monitoring mail volumes and other contract provisions. The Contract Administration team within the Field Sales Strategy and Contracts group produces a monthly contract performance report and shares it with the Field Account Representative in Customer Account Management. The Field Account Representative reviews the report and meets with the customer each month to discuss contract performance and any possible service issues. If there is a concern that the mailer is not going to meet the annual volume requirement, Contract Administration and the Field Account Representative identify shortfalls in performance, discuss the issue with the

mailer, and establish a timeline to achieve compliance. If the NSA continues underperforming, the Field Account Representative and Contract Administration make a joint decision based on all the customer's information, volume projections, past contractual history (if available), and any mail service concerns to determine contract outcome.

Finding #1: Annual NSA Volume Commitment Not Met

The mailer was compliant with three of the four key agreement provisions we reviewed, including mail type, zone rates, and payment system. However, the mailer did not comply with the annual volume commitment. Specifically, in year one of the NSA ([REDACTED]), the mailer shipped about [REDACTED] fewer packages than the required annual volume commitment.

The Postal Service provided adequate oversight of the NSA. The Field Account Representative reviewed the contract performance report monthly and met with the mailer to discuss the contract's underperformance and warn that the contract was in jeopardy of cancellation if they didn't meet the required volume commitment. The Field Account Representative noted that the customer was using shipping rate comparison software⁴ to find the lowest shipping prices with competitors. In addition, the Postal Service worked to resolve a service issue with the customer's contractual mail pick-up by the associated post office. During the contract period, the price-driven customer continued to shift mail volume to Postal Service competitors and subsequently requested a new contract with a lower volume commitment. However, the Postal Service determined the contract would not be viable at lower commitment rates, so they chose to let it expire on [REDACTED].

We determined that the Postal Service properly reported the expiration of the NSA to the PRC and reverted the customer to non-contract pricing. The Postal Service continues to work with the customer, attempting to gain back the lost volume and revenue. As such, we will not make a recommendation in this report.

³ The Postal Service uses nine zones for domestic postage pricing: one local zone and Zones 1 to 8. Each zone has defined distances based on the mileage between the originating and destinating plant. For example, Zone 2 encompasses distances of 51-150 miles, while Zone 3 encompasses distances of 151-300 miles. The larger the zone number, the higher the price charged to the mailer.
⁴ Software that will determine the lowest shipping rates for the desired service standards. The software considers entry and destination, weight, zone, and calculates the price for postage. It can be programmed to decide between providers.

Management's Comments

Management agreed with the finding and provided clarification that the customer was allowed to use either PC Postage or Electronic Verification System for payment. See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the report. We have clarified the approved payment methods in the Background of the report, as noted in management's comments.

Appendices

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Appendix A: Additional Information

Scope and Methodology

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

- Analyzed mailer data from the following Postal Service systems: Marketing Operational Data Store (MODS)⁵ and the National Meter Accounting and Tracking System (NMATS).⁶
- Obtained and reviewed the current NSA for Contract [REDACTED] and the PRC order authorizing the NSA to determine contract products, terms, and requirements.
- Interviewed Postal Service officials to discuss the NSA process, including contract performance monitoring and actions taken for non-compliance.
- Reviewed mailer's shipping information for compliance with the NSA provisions on mail type, zone rates, and payment system.
- Obtained and reviewed Postal Service postage rates in effect during contract year one.
- Obtained and analyzed volume and price information to determine whether:
 - The mailer met its volume commitment and paid the correct contract price in contract year one.

- The Postal Service reverted the mailer to Commercial Plus Pricing after expiration of the contract.
- Interviewed Field Sales Strategy and Contracts officials and reviewed supporting documentation to evaluate Postal Service oversight of the NSA.
- Reconciled mailer data in NMATS and MODS.

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

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

⁵ The back-end database for the Customer Data Mart that is used to report Postal Service customer revenue and volume performance.

⁶ NMATS tracks postage meters, PC postage, customer settings and their usage. Data reported in this application is transmitted to the Postal Service by the Postage Meter Providers. NMATS was designed to account for the revenue generated by postage meters currently in the hands of the public.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Negotiated Service Agreement - Contract #50593050</i>	Determine mailer compliance with NSA provisions and evaluate the U.S. Postal Service's oversight of NSA Contract #50593050.	20-206-R20	9-10-2020	██████████
<i>Partnership Agreement Compliance</i>	Determine ████████ compliance with agreement provisions and to determine whether opportunities exist to enhance agreement provisions.	19BG004FT000-R20	12-27-2019	None.
<i>The Postal Service and the Evolution of PC Postage</i>	N/A	RARC-WP-19-005	6-3-2019	None.
<i>Assessing the Effectiveness of Domestic Competitive Negotiated Service Agreements</i>	N/A	RARC-WP-19-004	5-3-2019	None.
<i>Postal Partnerships: The Complex Role of Middlemen and Discounts in the USPS Package Business</i>	N/A	RARC-WP-18-010	7-23-2018	None.

Appendix B: Management's Comments



May 10, 2021

JOSEPH WOLSKI
DIRECTOR, AUDIT OPERATIONS
U.S. POSTAL SERVICE OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Negotiated Service Agreement – Contract [REDACTED]
Project Number 20-317-DRAFT

The Postal Service generally agrees with the overall findings and conclusions the OIG has provided through its draft report. The only minor clarification the Postal Service would offer is found on page 2 of the draft report. The draft report states as follows:

"To receive special pricing, the mailer also had to adhere to these two key provisions:

- Use PC Postage for payment.
- Mail a specified number of packages annually."

The Shipping Services Contract, Section I, Part D states as follows:

Customer will utilize the following postage payment methods for Contract Packages:

1. PC Postage or Electronic Verification System ("eVS")

While a rather minute detail when reviewing the overall report, the Postal Service wished to clarify that the customer was allowed to either use PC Postage or the Electric Verification System as a payment method.

A handwritten signature in black ink that reads "Shavon P. Keys".

Shavon Keys
Vice President, Sales (A)

cc: Sally K Haring,
Manager, Corporate Audit and Response Management
U.S. Postal Service

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