



Office of Inspector General | United States Postal Service

Audit Report

Competitive Outbound International Negotiated Service Agreement Pricing and Revenue Commitments

Report Number 21-232-R22 | June 8, 2022



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Highlights

Background

A Negotiated Service Agreement (NSA) is a customized and mutually beneficial contractual agreement between the U.S. Postal Service and a specific mailer, customer, or organization to retain price-sensitive customers and encourage additional mail volume and revenue. An NSA provides for customized classifications and pricing under the terms and conditions established in the NSA and may include modifications to current mailing standards and other Postal Service requirements.

What We Did

Our objective was to assess processes, methodologies, accuracy of data, and internal controls for pricing competitive outbound international NSAs. We reviewed NSA data related to cost coverage, inflation, and contingency factors for fiscal years (FY) 2018 through 2021. We also reviewed Postal Service policies and procedures for minimum revenue commitments of NSAs, and FY 2021 through FY 2022, Quarter 2, data to determine the number of customers not meeting minimum revenue commitments.

What We Found

Postal Service processes and methodologies for pricing outbound international NSAs meet the criteria established by the Postal Regulatory Commission (PRC). Further, FY 2021 NSA data the Postal Service submitted to the PRC accurately supported its summary conclusions. In addition, although customers were not always meeting their contractual revenue commitments, the Postal Service has been performing monthly data reviews and quarterly customer reviews and cancelling or lowering discount tiers when appropriate.

Recommendations

We are not making any recommendations at this time.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

June 8, 2022

MEMORANDUM FOR: SHARON OWENS
VICE PRESIDENT, PRICING AND COSTING

A handwritten signature in black ink, which appears to read "Alan MacMullin", is positioned above the typed name.

FROM: Alan MacMullin
Deputy Assistant Inspector General
for Finance and Pricing

SUBJECT: Audit Report – Competitive Outbound International Negotiated
Service Agreement Pricing and Revenue Commitments
(Report Number 21-232-R22)

This report presents the results of our audit of Competitive Outbound International Negotiated Service Agreement Pricing and Revenue Commitments.

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

Attachment

cc: Corporate Audit Response Management
Postmaster General

Results

Introduction/Objective

This report presents the results of our self-initiated audit of competitive outbound international negotiated service agreements' (NSA) pricing and revenue commitments (Project Number 21-232). Our objective was to assess processes, methodologies, accuracy of data, and internal controls for pricing competitive outbound international NSAs. See [Appendix A](#) for additional information about this audit.

Background

An NSA is a customized and mutually beneficial contractual agreement between the U.S. Postal Service and a specific mailer, customer, or organization to retain price sensitive customers and encourage additional mail volume and revenue. NSAs provide for customized classifications¹ and pricing under the terms and conditions established in the NSA and may include modifications to current mailing standards and other Postal Service requirements. International NSAs are both inbound or outbound, with inbound international mail originating from a

An NSA is a customized and mutually beneficial contractual agreement between the U.S. Postal Service and a specific mailer, customer, or organization to retain price sensitive customers and encourage additional mail volume and revenue.



foreign country for delivery in the U.S. and outbound international mail originating in the U.S. for delivery in a foreign country.

Findings Summary

The Postal Service's processes and methodologies for pricing outbound international NSAs meet the criteria established by the Postal Regulatory Commission² (PRC). Further, fiscal year (FY) 2021 NSA data submitted by the Postal Service to the PRC accurately supported its summary conclusions. In addition, although customers were not always meeting their contractual revenue commitments, the Postal Service has been performing monthly data reviews and quarterly customer reviews and cancelling or lowering discount tiers when appropriate. As such we are not making any recommendations at this time. We will continue to monitor these areas as part of our ongoing work.

“The Postal Service’s processes and methodologies are adequate for pricing outbound international NSAs and they meet the criteria established by the PRC.”

Finding #1: Outbound International NSA Pricing

The Postal Service's processes and methodologies are adequate for pricing outbound international NSAs and they meet the criteria established by the PRC. Further, FY 2021 NSA data submitted by the Postal Service to the PRC accurately supported its summary conclusions.

To establish an outbound international NSA, the Postal Service obtains information from the customer regarding its expected volume and weight distribution for each class of mail for which discounts might be available. Customized pricing or discounted published base prices are based on this information. Additionally, the Postal Service negotiates a revenue commitment

¹ Classifications are the grouping of mailable matter into mail classes, products, and price categories, according to content, weight, size, and preparation standards as defined in the Mail Classification Schedule.
² An independent establishment of the executive branch of the U.S. government that has regulatory oversight of many aspects of the Postal Service, including development and maintenance of pricing regulations.

for the customer. After creation, in accordance with policies established by the Postal Service’s Board of Governors³, NSAs are submitted to the PRC for final approval.

In addition, the Postal Service adequately incorporated inflationary and contingency⁴ factors into its outbound international NSA’s prices. The PRC previously expressed concerns about the Postal Service’s “reliance on negative inflation factors at the time the Postal Service filed Modification One to the agreement.”⁵ We reviewed pricing calculations and inflation data⁶ for FY 2018 through FY 2021 and determined the Postal Service included variable monthly inflationary factors based on economic conditions and included percentages for processing, delivery, and transportation.⁷ These inflationary factors were provided to the Postal Service by [REDACTED],⁸ an economics forecasting organization. The contingency factors account for any other variations in input costs and ensure accurate pricing.⁹

Further, the Postal Service must show that NSAs do not cause market dominant products¹⁰ to subsidize competitive products¹¹ as a whole and they should contribute to the Postal Service’s institutional costs.¹² As Table 1 shows, outbound international NSAs covered their volume-variable and product-specific¹³ costs from FY 2016 through FY 2020 and maintained a positive contribution.¹⁴

Table 1. FY 2016 through FY 2020 Outbound International NSA Financial Data

Fiscal Year	Revenue	Volume-Variable and Product-Specific Costs	Contribution	Cost Coverage
2016	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2017	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2018	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2019	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2020	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: U.S. Postal Service Office of Inspector General (OIG) analysis of Postal Service NSA summary reports.

Finally, the PRC lists certain functionally equivalent NSAs as a single product in 39 Code of Federal Regulations Part 3040, Subpart A, Appendix B. When NSAs are grouped together as a single product, the collective must meet its attributable costs.¹⁵ Previously, the PRC in its ACD¹⁶ stated its concern that the financial workpapers filed by the Postal Service did not support claims that all NSA categories covered their attributable costs. We reviewed NSA summary¹⁷ data

3 The Board of Governors directs and controls the expenditures and reviews the practices and policies of the Postal Service. As of April 2022, the board consisted of the chairman, seven governors, the postmaster general, and the deputy postmaster general.

4 The contingency factor accounts for [REDACTED]

5 FY 2020 Annual Compliance Determination (ACD) report, Competitive Outbound International Products Consisting of NSAs; page 83, dated March 29, 2021; PRC Docket Number ACR2020.

6 [REDACTED]

7 Cost factors subject to inflation include [REDACTED]

8 [REDACTED]

9 The estimated cost for the period in the model or report is [REDACTED]

10 Postal products and services (commonly referred to as mailing services) over which the Postal Service exercises sufficient market power that it can effectively set their price with limited competition.

11 A category of postal products and services (commonly referred to as shipping services) for which similar products and services are offered by private sector carriers.

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

13 The change in unit costs because of a change in its volume alone, when the volumes of other mail products or price categories remain constant. That change in unit costs is multiplied by the total volume of the mail product or price category to arrive at the total volume-variable cost. Product specific costs do not vary with volume but are directly related to the product, for example, advertising costs.

14 The difference between revenue earned from a mail class and the volume-variable and product-specific costs for that mail class.

15 Direct and indirect costs that can be clearly associated with a particular mail product. It is the sum of volume-variable cost plus product-specific cost.

16 A report issued by the PRC in response to the Annual Compliance Report submitted by the Postal Service to the PRC. The PRC determines whether any price or fee in effect during the year under review were not in compliance with applicable provisions and whether any service standards were not met.

17 USPS NSA Summary (Unified), provided by the Postal Service on March 8, 2022.

for FY 2021 and found the Postal Service adequately covered costs for outbound international NSAs.

Finding #2: Outbound International NSA Revenue Commitments

Our review of FY 2021 outbound international NSAs showed that customers were not always meeting their contractual revenue commitments. However, since October 2021, the Postal Service has been performing monthly data reviews and quarterly customer reviews and cancelling or lowering discount tiers when revenue commitments are not met.

In FY 2021, the Postal Service had 241 outbound international NSAs where the 12-month contractual term ended. Of these NSAs, [REDACTED] met or exceeded the revenue commitment amount used to determine discounts. Conversely [REDACTED] agreements [REDACTED] did not meet the revenue commitment. These [REDACTED] outbound international NSAs had a combined revenue commitment amount of approximately [REDACTED], while total revenue realized was approximately [REDACTED]. The resulting [REDACTED] variance between the revenue commitment and realized revenue is shown in Table 2.

Table 2: FY 2021 Revenue Commitment Versus Actual Revenue Generated (\$)

	Count	Revenue Commitment	Actual Revenue	Variance
Agreements below revenue commitment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Agreements above revenue commitment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	241	[REDACTED]	[REDACTED]	[REDACTED]

Source: OIG analysis of Postal Service contract performance data as of end of year FY 2020 and FY 2021.

We reviewed outbound international NSAs from October 2021 through March 2022 and found 81 additional agreements where the contract term ended. Of these 81 agreements, [REDACTED] did not meet their revenue commitment. These agreements had a combined revenue commitment of approximately [REDACTED], while only generating total revenue of approximately [REDACTED]. The resulting [REDACTED] variance between the revenue commitment and realized revenue is shown in Table 3.

“ [REDACTED] agreements [REDACTED] did not meet the revenue commitment.”

Table 3: Revenue Commitment Versus Actual Revenue Generated (\$) for Contracts Ending October 2021 Through March 2022

	Count	Revenue Commitment	Actual Revenue	Variance
Agreements below revenue commitment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Agreements above revenue commitment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	81	[REDACTED]	[REDACTED]	[REDACTED]

Source: OIG analysis of USPS contract performance data of contracts ending October 2021 through March 2022.

Before October 2021, the Postal Service conducted annual reviews of outbound international NSAs to assess performance. Based on the review, the Postal Service determined whether to lower the discount tier for the customer's next NSA. In October 2021, management changed procedures for monitoring outbound international NSAs and has since been performing monthly data reviews and quarterly customer reviews and cancelling or lowering discount tiers.

Management's Comments

Management agreed with the findings presented in the report and acknowledged that there are no recommendations that need management's response.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive and no further action is required.

Appendices

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Appendix A: Additional Information

Scope and Methodology

The scope of the audit was Postal Service outbound international NSAs ending in FY 2021 and FY 2022 and outbound international NSA data from FY 2016 through FY 2021.

To accomplish our objective, we

- Assessed controls in place over outbound international NSA pricing development, implementation, and administration.
- Assessed how the Postal Service considers external factors such as inflation and consumer price index for outbound international NSAs.
- Analyzed outbound international NSA data for potential inconsistencies, trends, anomalies, or data integrity issues.
- Analyzed the cost coverage of outbound international NSAs and reviewed the relationship between mail volume and the discounted price.
- Interviewed Headquarters Pricing, Costing, and Sales management to understand the processes and procedures for developing pricing for outbound international NSAs, including input cost data, negotiations, prices, models, and data templates used.

We conducted this performance audit from September 2021 through June 2022 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 May 9, 2022, and included their comments where appropriate.

We assessed the reliability of outbound international NSA data from NSA Summary (Unified) data sets by performing logical tests of completeness, accuracy, and validity on key fields. We also interviewed knowledgeable officials from the Postal Service NSA groups and compared key information and data against separately prepared documents provided by management.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date
<i>Assessing the Effectiveness of Domestic Competitive Negotiated Service Agreements</i>	N/A	RARC-WP-19-004	5/3/2019
<i>Shipping Services Contract Compliance</i>	Assess contractual compliance and oversight of the Parcel Select shipping services contract.	20-315-R22	10/19/2021
<i>Negotiated Service Agreement - Contract [REDACTED]</i>	Determine mailer compliance with NSA provisions and evaluate Postal Service oversight of NSA Contract [REDACTED]	20-317-R21	5/19/2021
<i>Negotiated Service Agreement - Contract [REDACTED]</i>	Determine mailer compliance with NSA provisions and evaluate Postal Service oversight of NSA Contract [REDACTED]	20-233-R21	5/13/2021
<i>Negotiated Service Agreement - Contract #50593050</i>	Determine mailer compliance with NSA provisions and evaluate Postal Service 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

Appendix B: Management's Comments



May 20, 2022

JOHN CIHOTA
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Competitive Outbound International Negotiated Service Agreement [NSA] Pricing and Revenue Commitments (Report Number [21-232-DRAFT])

Thank you for the opportunity to review and comment on the findings and recommendations in the subject audit report.

Management agrees with Finding #1, Outbound International NSA Pricing. The Postal Service's processes and methodologies are adequate for pricing outbound international NSAs, and they meet the criteria established by the PRC. Further, FY 2021 NSA data submitted by the Postal Service to the PRC accurately supported its summary conclusions.

Management also agrees with Finding 2: Outbound International NSA Revenue Commitments. The OIG's review of FY2021 outbound international NSAs showed that customers were not always meeting their contractual revenue commitments. However, since October 2021, the Postal Service has been performing monthly data reviews and quarterly customer reviews and cancelling or lowering discount tiers when revenue commitments are not met.

There are no recommendations in the report that require management's response.

A handwritten signature in cursive script that reads "Sharon Owens".

Sharon Owens, Vice President, Pricing and Costing

cc: Manager, Corporate Audit Response Management
Postmaster General

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