



Office of Inspector General | United States Postal Service

Audit Report

Negotiated Service Agreement and Customer Compliance Capping Report

Report Number 22-053-R22 | June 3, 2022



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Highlights

Background

The U.S. Postal Service enters into customer agreements to provide customers with customized shipping solutions and mailing incentives. These agreements provide mutual benefits for the Postal Service and its customers. One type of customer agreement is a Negotiated Service Agreement (NSA), which is a contractual agreement between the Postal Service and a specific mailer that gives the mailer customized pricing in exchange for meeting volume and mail preparation requirements. During fiscal years (FY) 2019 to 2021, the number of domestic competitive NSAs decreased from 977 to 801 (18 percent), revenue increased from [REDACTED], and volume increased from [REDACTED] (105 percent each).

What We Did

Our objective was to summarize the results of our recent audits of customer compliance with five NSAs.

What We Found

Three customers were generally compliant with provisions of their NSAs. However, two customers did not always comply with key provisions of their agreements related to pricing, volume commitments, and mail preparation. We also noted non-compliance with other administrative requirements including the use of the Postal Service's trademark.

The Postal Service's NSAs continue to be critical components of the Postal Service's strategic plan, with positive impacts on revenue and brand. Customers continue to play a critical role in growing revenue through sales and marketing efforts. Based on the compliance issues identified, we believe further evaluation of large customer agreements is warranted. We recently initiated an audit of Channel Partner Visibility and Compliance, which includes an evaluation of PC Postage and reseller partner compliance with contractual and regulatory requirements.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

June 3, 2022

MEMORANDUM FOR: JACQUELINE KRAGE STRAKO,
EXECUTIVE VICE PRESIDENT, CHIEF COMMERCE &
BUSINESS SOLUTIONS

A handwritten signature in black ink, reading "Amanda H. Stafford", is positioned below the "MEMORANDUM FOR" section.

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

SUBJECT: Audit Report – Negotiated Service Agreement and Customer
Compliance Capping Report (Report Number 22-053-R22)

This report presents the results of our Negotiated Service Agreement and Customer Compliance Capping Report.

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 Negotiated Service Agreements (NSA) and Customer Compliance Capping Report (Project Number 22-053). Our objective was to summarize the results of customer compliance with five NSAs. See [Appendix A](#) for additional information about this audit.

Background

The U.S. Postal Service enters into customer agreements to provide customers with customized shipping solutions and mailing incentives. These agreements provide mutual benefits for the Postal Service and its customers.

One type of customer agreement is the NSA, which is a contractual agreement between the Postal Service and a specific mailer whereby the mailer receives customized pricing in exchange for meeting volume and mail preparation requirements.

The Postal Service's Board of Governors authorizes NSAs for submission to the Postal Regulatory Commission (PRC)¹ which, by law, approves NSAs. Once in effect, the Postal Service manages the contract by monitoring mail volume and other contract provisions. If the NSA underperforms, Postal Service management determines whether it should continue the contract based on volume projections, past contractual history (if available), and any other mail service concerns.

Competitive product² NSAs must generate enough revenue to cover those costs directly tied to fulfilling the product or service. In addition, competitive product NSAs must cover at least [REDACTED] of the Postal Service's institutional or overhead costs. The PRC has approved all competitive product NSAs submitted for review (over 1,400) since the program's inception in 2003.

During FYs 2019 through 2021, the number of domestic competitive product NSAs decreased from 977 to 801 (18 percent). During this period, revenue from these NSAs increased from [REDACTED] and mail volume increased from [REDACTED] (105 percent each).

Finding #1: National Service Agreement and Customer Contract Compliance

Three customers were generally compliant with provisions in their NSAs. However, two customers did not always comply with key provisions of the large NSAs, including pricing, volume commitments, and mail preparation.

We also noted non-compliance with administrative requirements, including the use of the Postal Service's trademark, as follows:

Pricing

One customer took discounts ranging from [REDACTED] exceeding shipping agreement provisions for some Priority Mail transactions due to a [REDACTED]. Additionally, the customer did not always provide a complete daily transaction file³ as required by the agreement. The customer's shortpaid transaction file data did not always equal all shortpaid amounts⁴ submitted by and owed to the Postal Service. In addition, the customer did not always pay outstanding shortpaid amounts within the collection period. Finally, the Postal Service did not have an effective process to identify and charge the customer for postage discrepancies.

“The U.S. Postal Service enters into customer agreements to provide customers with customized shipping solutions and mailing incentives.”

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 A daily transaction file contains transaction amount, rate category, discount amount, and mail class for packages shipped that day.

⁴ Shortpaid postage occurs when the postage or the fee actually paid to the Postal Service for a specific service is less than the actual postage or fee due to the Postal Service under the published or negotiated rate for that service.

“All customers are required to prepare pallets and packages in accordance with mailing standards.”

Another customer used an incorrect dimensional weight divisor to calculate dimensional weight⁵ for contract packages that exceeded [REDACTED]. Because of dimensional weight issues, the customer overpaid the Postal Service for contract packages. We analyzed payment data for Quarter (Q) 3, calendar year (CY) 2020, which included [REDACTED] transactions. We found that [REDACTED] transactions (30 percent)

had incorrect postage due to the customer using the wrong divisor or submitting the dimensional weight, resulting in [REDACTED] in overpayments, or 1.5 percent of total postage paid.

Volume Commitments

In CY 2020, one customer met the volume commitment; however, most of the volume (about 77 percent of the total) occurred in Q4 (see Table 1).

Table 1. CY 2020 Volume by Quarter

Q1 (Jan – March)	Q2 (April – June)	Q3 (July – Sept)	Q4 (Oct – Dec)
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: Postal Service personnel.

As of June 2021, the customer only shipped about [REDACTED] contract packages. Based on the current trend, the customer needed to 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. The contract stated the customer would commit, in good faith, to ship at least [REDACTED] packages in CY 2020 and [REDACTED] in CY 2021. We concluded that the Postal Service could improve future contracts by including specific terms

and conditions for yearly volume commitments. For example, the Postal Service could consider evaluating volume quarterly, modifying the pricing structure, and including terms and conditions to ensure the customer achieves yearly volume commitments in future contracts.

Mail Preparation

All customers are required to prepare pallets and packages in accordance with mailing standards.⁶ However, one customer did not always prepare their mail as required by the agreement. Specifically, 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. Additionally, heavy packages placed on top of smaller packages crushed the contents underneath (see Figures 1 and 2).

Figure 1. Pallet Exceeding Maximum Height Requirement



Source: OIG Report Number 20-315-R22.

⁵ Dimensional weight is the cubic size of a package. It is used to determine postage and calculated by multiplying the length, height, and width of the package divided by a divisor.

⁶ Mailing Standards of the United States Postal Service, *Domestic Mail Manual*.

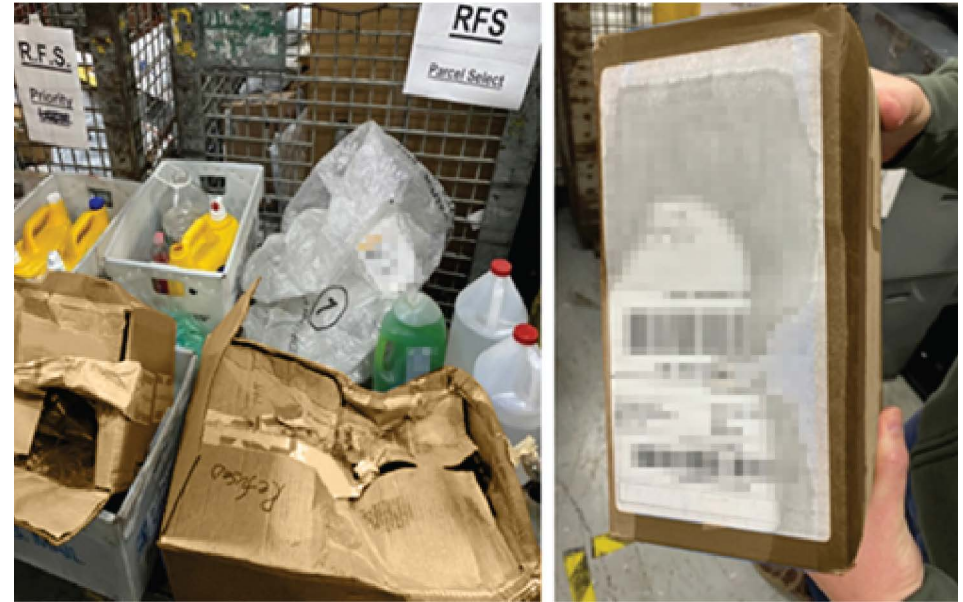
Figure 2. Heavy Packages on Top of Pallet – Crushed Packages Underneath



Source: OIG Report Number [20-315-R22](#).

The customer also used packing tape that did not always sufficiently adhere to packages and packaged multiple liquids without secured caps, resulting in leaks and spillage on other packages which damaged boxes or faded labels (see Figure 3).

Figure 3. Packages with Multiple Liquids and Faded Labels Due to Liquids Leaking



Source: OIG Report Number [20-315-R22](#).

Postal Service personnel did not adequately monitor the customer's packaging or have an effective means for personnel to report issues at destination delivery units.

Other Areas of Non-compliance

One customer did not comply with some administrative aspects of their NSA, including obtaining written approval for each use of the Postal Service's trademark,⁷ as required. Further, in the absence of a steering committee — the required decision-making body established by the agreement to foster the relationship with the customer — there was no formal mechanism to provide strategic direction.

⁷ The Postal Service name, domain names, trademarks (including word marks, product marks, symbols, trade dress, and logos), and other branding elements.

Future Work

Postal Service NSAs continue to be critical components of its strategic plan, with positive impacts on revenue and brand. Customers continue to play a critical role in growing revenue through sales and marketing efforts. Based on the issues identified with larger, more complex agreements, we believe further evaluation of these types of agreements is warranted. We recently initiated an audit of Channel Partner Visibility and Compliance, which includes an evaluation of PC Postage and reseller partner compliance with contractual and regulatory requirements.

Management's Comments

Management agreed with the finding but does not believe this audit report should be published, as all findings in this report have been in previous reports. Management also noted that most of the findings in this report were not specific to NSAs, therefore, do not necessitate audits specifically on NSAs. Management provided additional context regarding pricing, dimensional weight,

volume commitments and mail preparation for the previous reports. 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. Regarding management's comments about publicly issuing the report, we see value in summarizing related work to highlight trends and synthesize additional insights.

“Postal Service NSAs continue to be critical components of its strategic plan, with positive impacts on revenue and brand.”

Appendices

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Appendix A: Additional Information

Scope and Methodology

The scope of our audit included work conducted from FYs 2019 through 2022 on five NSAs. For the purposes of our audits, we defined small and medium NSAs as having revenue less than [REDACTED] and large as having revenue more than [REDACTED]. We analyzed three small NSAs and two large NSAs (see Prior Audit Coverage for more details on these audits).

To accomplish our objective we:

- Summarized the results of the prior audits.
- Obtained and quantified the number of approved competitive and market dominant NSAs and associated revenue and volume for FYs 2019 through 2021.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date
<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

We conducted this performance audit from January 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. We discussed our observations and conclusions with management on April 28, 2022, and included their comments where appropriate.

This report is a compilation of prior audit work. As such, we did not assess the reliability of any computer-generated data for the purposes of this report.

Appendix B: Management's Comments



May 24, 2022

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: Negotiated Service Agreement and Partnership
Contract Capping Report (Report Number 22-053-DRAFT)

Thank you for providing the Postal Service an opportunity to review and comment on the findings and recommendations contained in the draft audit report, *Negotiated Service Agreement and Partnership Contract Capping Report*.

Overall

Management does not believe this audit report should be published. All findings noted in this report have been included in previously published reports. Furthermore, most of the findings in this report are not specific to NSA's and therefore do not necessitate audits specifically on NSA's.

Pricing

While management does not disagree with the short-paid findings in the first paragraph, management disagrees that the pricing discrepancies are not specific in nature to NSA's and would not warrant a narrow focus into auditing NSA's.

DIM Divisor

Management agrees that the OIG's findings regarding this particular customer's manifesting of DIM weight are likely accurate, however this finding is not necessarily specific to NSA's. Customers are expected to populate the DIM weight field in the manifest if the package is in fact subject to DIM weighting. However, eVS does not know if the DIM weight is the actual weight of the package because DIM weight is defined as the greater of the actual weight and the weight calculated by the dimensional weight formula. It is not 100% known if the customer populated actual weights or dimensional weights in this field, although based on the dimensional data in the OIG's findings, the customer likely provided dimensional weights. The root of the problem is that the customer was not calculating dimensional weights correctly using their customized DIM divisor. The same problem could exist with a customer who does not have a customized DIM divisor and calculates the DIM weight incorrectly in their manifest.

Volume Commitments

The OIG noted the comments within this section also in its findings of OIG Report 20-315-R22. Management agrees with the theory that volume commitments incent customer volume growth. The contract referenced already contained volume incentives for

subsequent years of the contract. Additionally, the Postal Service was already in the process of negotiating an amendment to the NSA that further incentivizes the customer to increase shipping volumes. The OIG closed out its recommendation in that audit accepting Management's response. Furthermore, the OIG left out important rationale in its report regarding the customer shipping most of its volume of 2020 during the period of October through December. This was a planned volume increase that was discussed in advance between the USPS and the customer between May 2020 – September 2020 for operational planning. The customer also had to pay an additional amount for exceeding the DDU/DSCF mix ratio term.

Mail Prep

Management agrees with the OIG's findings. These findings were also included in OIG audit report 20-315-R22 which has since been closed out after accepting Management's response.



Shibani Gambhir
Vice President, Business Development

cc: *Chief Commerce & Business Solutions Officer*
Manager, Corporate Audit Response Management

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1735 North Lynn Street
Arlington, VA 22209-2020
(703) 248-2100

For media inquiries, please email
press@uspsoig.gov or call 703-248-2100