



Office of Inspector General | United States Postal Service

## Audit Report

# Expedited Packaging Supplies Program Costs

Report Number 19-009-R21 | October 21, 2020



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# Highlights

## Objective

The U.S. Postal Service provides free expedited packaging supplies (EPS) for use with its domestic and international Priority Mail and Priority Mail Express services. Packaging items include rigid containers and envelopes and a range of pressure sensitive labels and decals. There are three categories of packaging supplies: standard, specialized, and customized.

- Standard packaging is available to customers through its fulfillment centers and local post offices. There are over 50 standard items available for domestic and international Priority Mail and Priority Mail Express, including envelopes, boxes, tubes, mailing labels, tags, and stickers.
- Specialized packaging is available to qualifying customers when standard supplies will not meet their needs. For our review period, customers must have generated a minimum of \$50,000 in annualized expedited revenue to be eligible for specialized packaging. There are 16 specialized boxes of various sizes and five envelopes available to qualifying customers when standard packaging does not meet their needs.
- Customized packaging is designed to fit specific needs of the customer and is available when standard or specialized packaging does not meet customer needs. For our review period, customers must have generated a minimum of \$250,000 in annualized expedited revenue to be eligible for customized packaging. The packaging consists of boxes, envelopes, cohesive packaging, and address labels. It can also include cobranding the packaging with the customer's logo.

The Postal Service incurred about [REDACTED] billion in EPS costs from fiscal year (FY) 2015 to FY 2019. In FY 2019, it attributed about [REDACTED] million of EPS costs to expedited products.

Our objective was to assess whether the Postal Service is effectively achieving EPS program objectives, controlling program costs, and accurately attributing costs to products. We began fieldwork before the President of the U.S. issued the national emergency declaration concerning the novel coronavirus disease (COVID-19) outbreak on March 13, 2020. The results of this audit do not reflect

any management process changes related to the expedited packaging supplies program that may have occurred as a result of the pandemic.

## Findings

The Postal Service did not always distribute specialized and customized packaging to customers in line with EPS program revenue objectives and policy requirements. We found that from FY 2015 to FY 2019, 71 of 253 specialized packaging customers (about 28 percent) did not meet their annual revenue commitments within a 12-month period. In addition, 17 of 165 customized packaging customers (about 10 percent) did not meet the annual revenue commitments during FY 2015 to FY 2019. This occurred because management did not always effectively monitor customer revenue generation or consistently limit supplies for ineligible customers.

We estimated that from FY 2015 to FY 2019, the Postal Service distributed about \$1.1 million in specialized packaging to customers who had not met expedited revenue commitments. In total, these customers missed revenue commitments by about \$4.3 million. While the Postal Service has reduced the costs of providing this packaging to ineligible customers by about 57 percent from FY 2015 to FY 2019, we believe management could further curtail these actions to mitigate unnecessary costs going forward. We were unable to determine the value of customized packaging provided to customers who did not meet their revenue commitments due to EPS data limitations.

Opportunities also exist for the Postal Service to more effectively control EPS program costs through enhanced monitoring of standard packaging usage. We found that the Postal Service could not verify whether about 1 billion free standard boxes and envelopes (about 44 percent) procured from FY 2015 through FY 2019 re-entered the mailstream. The Postal Service could not fully account for standard items because it:

- Did not track usage data for all automated and manually processed mailpieces in expedited packaging that re-entered the mailstream.

- Did not track all expedited packaging mailpieces shipped at non-expedited postage rates, which prevented identifying and recovering costs for some improper EPS usage.
- Had limited controls over its online and post office EPS ordering and distribution (for example, customers can submit multiple orders to circumvent the single-order dollar threshold) and no EPS reporting and distribution controls at any post offices.
- Did not sufficiently monitor EPS data from its standard packaging supplier.

Without the ability to fully account for EPS in the mailstream or to identify and remediate postage shortages due to improper use, the Postal Service has a limited ability to assess the EPS program's effectiveness in increasing expedited revenue and volume and more effectively manage and control EPS program costs.

Further, we found that the Postal Service did not accurately attribute EPS costs between domestic and international expedited products. Specifically, it did not distribute EPS costs for about 27 percent of expedited mail volume between domestic and international products for FY 2019.

The Postal Service omitted relevant volumes when distributing costs because it did not update costing calculations to account for changes to several mail categories. As a result, the Postal Service overestimated costs for international

expedited products and underestimated costs for domestic expedited products by about \$92,000 each for FY 2019.

## Recommendations

We recommended management:

1. Continue to enhance monitoring of customer revenue generation to prevent distribution of specialized and customized packaging to ineligible customers.
2. Evaluate and implement, as appropriate, available options to gather more complete expedited packaging usage data.
3. Evaluate and implement, as appropriate, available technology to scan all expedited mailpieces to identify and recover postage due from improper usage of expedited packaging.
4. Enhance online EPS ordering controls to prevent customers from circumventing order thresholds and to further discourage waste.
5. Develop a mechanism to provide greater visibility over EPS at all post offices and periodically distribute and review data reports from the standard packaging supplier's information tool to evaluate the cost effectiveness of the EPS program.
6. Update costing calculations to reflect all expedited product categories, and periodically review expedited product categories to ensure calculations are up to date.

# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

October 21, 2020

**MEMORANDUM FOR:** GARY C. REBLIN  
VICE PRESIDENT, PRODUCT INNOVATION  
  
SHARON D. OWENS  
VICE PRESIDENT, PRICING AND COSTING

A handwritten signature in black ink, which appears to read "Sherry Fullwood", is positioned below the recipient names.

**FROM:** Sherry Fullwood  
Acting Deputy Assistant Inspector General  
for Finance and Pricing

**SUBJECT:** Audit Report – Expedited Packaging Supplies Program Costs  
(Report Number 19-009-R21)

This report presents the results of our audit of the U.S. Postal Service's Expedited Packaging Supplies Program Costs.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Whitney Clarke, Acting Director, Cost and Pricing, 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 Expedited Packaging Supplies (EPS) Program Costs (Project Number 19-009). Our objective was to assess whether the U.S. Postal Service is effectively achieving EPS program objectives, controlling program costs, and accurately attributing costs to products. See [Appendix A](#) for additional information about this audit.

We began fieldwork before the President of the U.S. issued the national emergency declaration concerning the novel coronavirus disease (COVID-19) outbreak on March 13, 2020. The results of this audit do not reflect any management process changes related to the EPS program that may have occurred as a result of the pandemic.

## Background

The Postal Service provides customers free EPS for use with its domestic and international Priority Mail and Priority Mail Express services. According to the Postal Service, free packaging is a unique selling tool that differentiates it from its competitors. The objectives of the EPS program are to:

- Generate new revenue by attracting new customers and growing business with existing customers.
- Increase processing efficiency and improve on-time delivery through clear identification of domestic and international Priority Mail and Priority Mail Express items in the mailstream.
- Increase customer retention and loyalty by providing packaging that fits the customer's specific shipping needs.

Packaging items include rigid containers and envelopes and a range of pressure sensitive labels and decals. There are three specific categories of packaging supplies: standard, specialized, and customized.

- Standard – There are over 50 standard items available for domestic and international Priority Mail and Priority Mail Express, including envelopes, boxes, tubes, mailing labels, tags, and stickers. The Postal Service makes

these items available to customers through its fulfillment centers and also makes a select group of standard packaging supplies available in small quantities through local post offices.

- Specialized – There are 16 specialized boxes of various sizes and five envelopes available to qualifying customers when standard packaging does not meet their needs. For our review period, customers must have generated a minimum of \$50,000 in new annualized expedited revenue for the Postal Service in order to be eligible for specialized packaging. In April 2020, the Postal Service changed this minimum annual revenue requirement to \$75,000.
- Customized – This packaging is designed to fit the specific needs of the customer. It is available to qualifying customers only when standard or specialized packaging will not meet their needs. The packaging consists of boxes, envelopes, cohesive packaging, and address labels. It can also include cobranding the packaging with the customer's logo. For our review period, customers must have generated a minimum of \$250,000 in new annualized expedited revenue for the Postal Service in order to be eligible for customized packaging. In April 2020, the Postal Service changed this minimum annual revenue requirement to \$350,000.

The Postal Service's standard packaging supplier manages the inventory and order fulfillment of all standard EPS. The company directly orders supplies from Postal Service contracted manufacturing suppliers, stores the supplies in its fulfillment centers (generally located near Postal Service network distribution centers [NDC]), processes orders to post offices and individual consumers, and transports ordered supplies to NDCs (in most cases) or directly to some large customers. This supplier does not manage the inventory or order fulfillment for specialized or customized packaging. The

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***“Packaging items include rigid containers and envelopes and a range of pressure sensitive labels and decals.”***

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Postal Service works with 21 other suppliers to manufacture and ship specialized and customized EPS.

The Postal Service incurred about [REDACTED] billion in EPS costs from fiscal year (FY) 2015 to FY 2019. It captures EPS costs in the Supplies and Services section of the Cost Segments and Components report, which provides estimates of costs attributable<sup>1</sup> to mail classes, subclasses, and special services. EPS costs are fully attributed to products. In FY 2019, the Postal Service attributed about [REDACTED] million of EPS costs to expedited products.

### Finding #1: Specialized and Customized Revenue Requirements

The Postal Service did not always distribute specialized and customized packaging in line with EPS program revenue objectives and policy requirements. We found that from FY 2015 to FY 2019, 71 of 253 specialized packaging customers (about 28 percent) did not meet their annual revenue commitment.<sup>2</sup> Specifically, we identified at least 193 instances<sup>3</sup> when the Postal Service provided those 71 customers with specialized packaging; however, those customers had not generated the required minimum expedited revenue (\$50,000) within the prior 12-month period of receiving the packaging.

In addition, the Postal Service distributed customized packaging to 17 of 165 customized packaging customers (about 10 percent) that never met the annual revenue commitments (\$250,000) during FY 2015 to FY 2019. For those 17 customers, we identified at least 68 instances when the Postal Service provided customized packaging when they never generated the required minimum expedited revenue. There were likely additional instances of this occurring, as we were unable to determine the total number of instances when the Postal Service provided these ineligible customers with customized packaging because its customized EPS data did not identify the dates when customers

ordered and received the supplies. Rather, customer order data only showed EPS order quantities by quarter or year.

According to Postal Service policy,<sup>4</sup> EPS program objectives include generating new revenue and growing the business through new and existing customers.

For our analysis period, the policy stated that customers must generate a minimum of \$50,000 or \$250,000 in new, annualized expedited revenue to receive specialized or customized packaging, respectively. Customers must meet the revenue qualification every time they order additional packaging. This is required because the Postal Service can only offset the costs of providing free EPS to customers by generating revenue from the corresponding mail services. Specialized and customized packaging are more costly to the Postal Service than standardized packaging.

The Postal Service distributed specialized and customized packaging to customers that did not meet the revenue requirements because it did not always effectively monitor customer revenue generation or consistently limit supplies for ineligible customers. The EPS program office started tracking and monitoring the revenue generated by customers of specialized and customized packaging in May 2018. We found that in the 16 months prior to May 2018, there were 48 instances where the Postal Service provided specialized packaging to customers who did not meet the revenue commitment. In the 16 months after May 2018, there were 35 instances where this occurred.<sup>5</sup> This 27 percent

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***“The Postal Service did not always distribute specialized and customized packaging in line with EPS program revenue objectives and policy requirements.”***

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1 Attributable costs are those that are directly or indirectly caused by a product or service.

2 Annual 12-month commitments were assessed using the first EPS order in our scope (FY 2015-2019) for each customer when there was a trailing 12 months' worth of data.

3 For the purpose of this report, “instance” refers to a month when the Postal Service provided specialized packaging to a customer. There could have been one or more orders in a given calendar month.

4 Postal Service Publication 22, *Expedited Packaging Supplies*, dated January 2016.

5 Five instances occurred during May 2018. These instances were excluded here because the exact date that the tracking began in May 2018 is unknown. In addition, we only went back to January 2017 to compare activity for the same number of months before and after revenue tracking began. We could not do a similar comparison for customized packaging customers because the customized EPS data did not consistently identify when customers had ordered and received the supplies.

reduction is a positive improvement; however, the Postal Service continued to provide specialized and customized packaging to ineligible customers.

We acknowledge that customers' business operations may unexpectedly prevent them from meeting their revenue commitment for specialized or customized packaging in a given 12-month period. However, considering the higher cost of specialized and customized packaging, management should identify an acceptable variance from revenue commitments if they believe there are circumstances where it is appropriate to provide this packaging to customers who would otherwise be ineligible. Specifically, they should consider establishing a reasonable margin of error for revenue requirements and forgo distributing these EPS items to customers that fall short of that threshold.

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***“Opportunities exist for the Postal Service to more effectively control EPS program costs through enhanced monitoring of standard packaging usage.”***

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Management stated they have improved their monitoring efforts to more accurately identify and track the different revenue streams and payment methods that specialized packaging customers use. To accomplish this, they began to require specialized packaging customers to submit the unique mailer identification number associated with the packaging order in April 2020.<sup>6</sup> This helped to ensure that generated expedited revenue was properly credited to specialized packaging customers' accounts and counted towards their annual revenue commitment.

In addition, management implemented a specialized application tool in August 2020 that will automate the specialized packaging ordering process.

They plan to deploy a similar tool for customized packaging in FY 2021. While we commend management for improving their ability to monitor order volumes for specialized and customized packaging, the changes to specialized packaging were made following completion of our fieldwork, so it is not clear whether these controls will enhance monitoring of customer revenue commitments. Management should continue to enhance their revenue monitoring to ensure they only provide specialized and customized packaging to customers who have met revenue requirements.

Providing specialized and customized packaging to customers who had not generated the required revenue for the supplies they previously received is an expense to the Postal Service. We estimated that from FY 2015 to FY 2019, the Postal Service distributed about \$1.1 million in specialized packaging to customers when they had not met expedited revenue commitments. These specialized packaging customers missed revenue commitments by about \$4.3 million. While Postal Service has reduced the costs of providing this packaging to ineligible customers by about 57 percent from FY 2015 to FY 2019, we believe management could further curtail these actions to mitigate unnecessary costs going forward.

Due to limitations of the Postal Service's invoice data from its customized packaging suppliers, we could not calculate the dollar value of customized packaging it distributed to ineligible customers. We also could not quantify how much those customers had fallen short of revenue commitments.

#### **Recommendation #1**

We recommend the **Vice President, Product Innovation**, in coordination with the **Vice President, Sales**, continue to enhance monitoring of customer revenue generation to prevent the distribution of specialized and customized packaging to ineligible customers who do not meet revenue commitments.

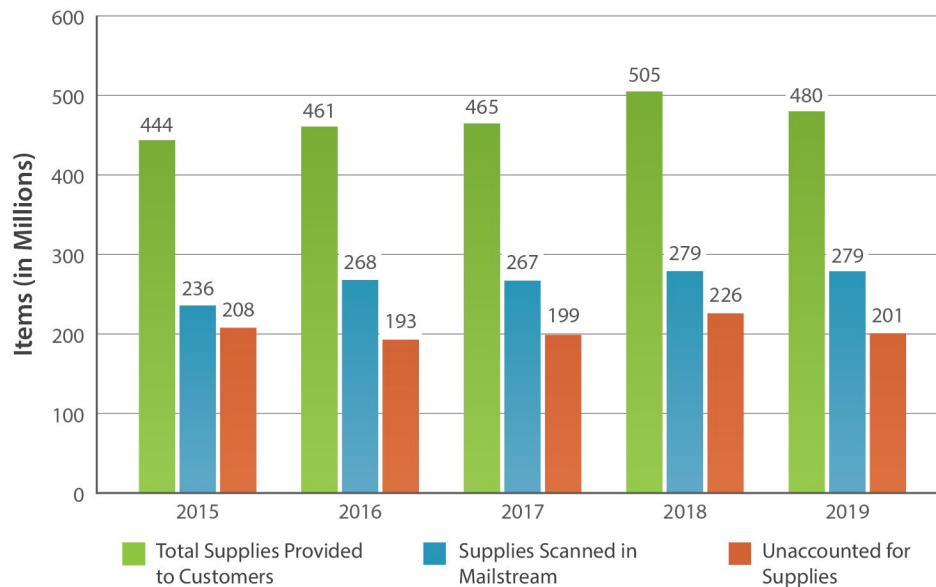
<sup>6</sup> Management stated they always required the mailer identification number for customized packaging orders.



## Finding #2: Standard Packaging Cost Controls

Opportunities exist for the Postal Service to more effectively control EPS program costs through enhanced monitoring of standard packaging usage. We found the Postal Service could not verify whether about one billion free standard boxes and envelopes<sup>7</sup> procured during FYs 2015 through 2019 (about 44 percent) re-entered the mailstream, as shown in Figure 1. In addition, management was unable to provide what they believed to be an expected or acceptable leakage rate for these supplies.

**Figure 1. FYs 2015-2019 Total Standard Packaging Distributed, Standard Packaging Verified in the Mailstream, and Unaccounted for Items (in millions)**



Source: Standard EPS box and envelope distribution volume and scanning data provided by the Postal Service's Product Innovation group and standard packaging supplier.

<sup>7</sup> We could not quantify the dollar value of these supplies because the item codes and descriptions in EPS price lists did not always match those in the EPS product list. Therefore, we were unable to identify the price that the Postal Service paid for each EPS item. In addition, EPS price lists did not always clearly identify the unit price, or the number of units represented, for bulk items. Without this information, we could not assign a value to individual EPS items.

According to Publication 22, although customers receive EPS at no added cost, these packaging items carry a real cost to the Postal Service for their procurement, inventory management, fulfillment, and delivery. To recover costs, the Postal Service must ensure that customers use the supplies for their intended purpose by monitoring volume related to the use of standard packaging.

The Postal Service could not fully account for the one billion pieces of standard packaging because it:

- Did not track EPS usage data for all automated and manually processed mailpieces.
- Only tracked and remediated improper EPS usage for some expedited products.
- Had limited controls over online and post office EPS ordering and distribution.
- Did not sufficiently monitor EPS data from its supplier of standard packaging.

### EPS Usage Data

The Postal Service could not verify the total volume of standard packaging that re-entered the mailstream because it did not capture usage data for all processed mailpieces. The Postal Service generates a monthly report that captures the number of specific EPS boxes and envelopes processed on automated equipment. The equipment scans EPS barcodes on packaging as it processes expedited mailpieces, which enables the Postal Service to track the volume by various EPS types. According to the volume report, machines captured 279 million pieces of expedited packaging in FY 2019.

However, the EPS volume report did not capture the full universe of automated mailpieces in expedited packaging. To generate the report, the Postal Service used data captured by the following mail processing equipment:

- Automated Parcel Bundle Sorter (APBS)<sup>8</sup>
- Automated Package Processing System (APPS)<sup>9</sup>
- Enhanced Package Processing Sorter (EPPS)<sup>10</sup>
- High Throughput Package Sorter (HTPS)<sup>11</sup>
- Parcel Sorting Machine (PSM)<sup>12</sup>

Management stated that while the APPS and EPPS have six-sided cameras, the APBS, HTPS, and PSM only have top-read cameras. This means that the APBS, HTPS, and PSM may not capture all volume of expediting packaging run on those machines because they can only read an EPS barcode if the barcode is facing in the direction of the one camera. Management also stated that, in the past, the placement of the mailing label graphic on the packaging caused customers to place labels over the EPS barcode, which also inhibited volume tracking by automated equipment. However, they have changed the placement of the mailing label graphic on the packaging to improve tracking of EPS usage data for automated mailpieces.

In addition, the EPS volume report did not capture EPS for manually processed mailpieces because those items are not scanned on automated equipment. According to management, the Postal Service manually processes a significant

number of Priority Mail Express pieces. They provided a week's worth of commercial Priority Mail Express summary data<sup>13</sup> which showed that the Postal Service manually processed about 94 percent of the mailpieces. Therefore, there is likely a considerable amount of free Priority Mail Express packaging that the Postal Service cannot track in the mailstream.

In the past, the Postal Service had a mechanism for statistically estimating the volume of expedited packaging that re-entered the mailstream. Data collection technicians (DCT)<sup>14</sup> used to identify whether mailpieces had Postal Service- or customer-provided packaging as part of their sample readings for the Origin Destination Information System – Revenue, Pieces, and Weight (ODIS-RPW).<sup>15</sup> According to Postal Service management, they discontinued this data requirement during FY 2011 because they questioned whether DCTs were accurately making determinations of specific packaging. In addition, they explained that they have refined the ODIS-RPW software to target only items needed for Revenue, Pieces, and Weights (RPW)<sup>16</sup> reporting, reduce RPW test times, and improve RPW data quality.

Without increased visibility of standard packaging usage, the Postal Service has a limited ability to fully assess EPS program effectiveness. Specifically, current data

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***“Without increased visibility of standard packaging usage, the Postal Service has a limited ability to fully assess EPS program effectiveness.”***

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8 The APBS is an upgraded Small Parcel and Bundle Sorter (SPBS) with a new control system, barcode and optical character reader technology, and improved induction stations. The SPBS sorts small parcels and packages or bundles of letters and flats to specific bins for either delivery or processing.

9 The APPS is an automated parcel and bundle sorting system that uses a carousel-type cross belt sorter subsystem capable of processing [REDACTED] pieces per hour. It collects detailed information about each package, such as package type, size, and weight.

10 The EPPS sorts bundles of flats to bins for either delivery or subsequent processing.

11 The HTPS is a high-performing, automated package sorter.

12 The PSM is an input station controlled by a computer that sorts and discharges parcels from transport trays to primary and secondary positions. The PSM sorts parcels to separations that typically include other NDCs and high-volume facilities.

13 Priority Mail Express summary data for the week of June 14-21, 2020, for the following rate categories: Flat Rate Envelope, Legal Flat Rate Envelope, and Padded Flat Rate Envelope. Management also provided summary data for nine Priority Mail rate categories for the same time period. That data showed that the Postal Service manually processed about 4 percent of Priority Mail pieces.

14 DCTs gather, record, and analyze a variety of statistical data on selected operating and financial activities from mail samples and other sources.

15 An internal information system by which data on mail volume, mail class or product, and other mail characteristics are collected, developed, and reported.

16 A system that uses samples of the mailstream to statistically measure its contents in terms of volume, work content, and revenue. The Postal Service publishes RPW reports periodically and posts them online for the public.

limitations make it difficult for the Postal Service to reliably estimate the number of free EPS items customers have actually used to drive expedited revenue and volume and to leverage this information to more effectively manage and control EPS program costs.

### Improper EPS Usage

During field observations, we noticed that customers used expedited packaging to ship non-expedited mail products, as shown in Figure 2. In this example, a customer had improperly used expedited packaging to ship a First-Class Mail package instead of a Priority Mail or Priority Mail Express package. Further, the

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***“The average cost of the packaging is included in the current rate structure of the corresponding delivery service.”***

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Postal Service only scanned a portion of expedited mailpieces to identify and recover postage due from improper EPS usage. There are policies and controls in place to minimize improper use of EPS at retail windows, but we could not identify any existing controls once EPS enters the mailstream. For example, improper use of EPS in a drop box would not be detectable until after it entered the mailstream. Management stated that sampling occurs to help identify and recapture costs of

improper EPS usage after mail enters the mailstream; however, we were not provided any supporting documentation regarding the frequency, methodology, or results of this process. Improper EPS usage impacts the Postal Service’s ability to recover the costs of providing the free packaging.

According to Publication 22, the average cost of the packaging is included in the current rate structure of the corresponding delivery service (for example, Priority Mail or Priority Mail Express). The policy also states that all EPS that is not used for its intended purpose is a liability to the Postal Service; therefore, it is costly to the Postal Service when customers do not use EPS with the appropriate mail service.

**Figure 2. Improperly Used EPS for First-Class Mail**



Source: U.S. Postal Service Office of the Inspector General (OIG) photo taken during a site visit to the downtown Charlotte Post Office on December 11, 2019.

***“From FY 2015 to FY 2019, the Postal Service fulfilled 79 percent of standard EPS order volume through online and post office channels.”***

In FY 2019, the Postal Service identified customers who shipped 1.1 million Click-N-Ship<sup>17</sup> and PC Postage<sup>18</sup> pieces with expedited packaging at non-expedited postage rates. The Automated Package Verification (APV)<sup>19</sup> system identified and recovered \$3.8 million in short-paid postage for those pieces. However, APV does not scan non-Click-N-Ship and non-PC Postage pieces<sup>20</sup> to identify and recover postage due from improper EPS usage, as shown in Figure 2.

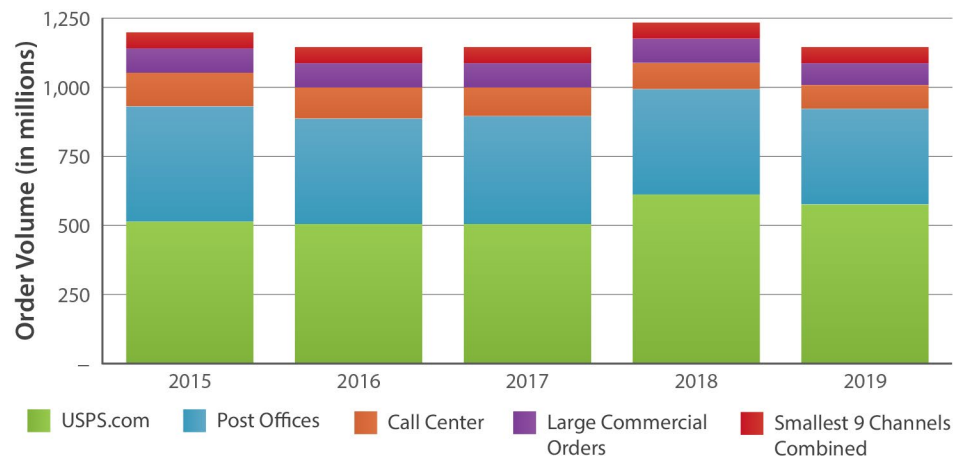
The Postal Service should evaluate whether it could use existing scanning technology to identify short-paid postage of free expedited packaging for non-Click-N-Ship and non-PC Postage pieces. Without effective procedures

for identifying and remediating postage shortages due to improper use of expedited packaging, the Postal Service may not offset the cost of some supplies by generating the appropriate revenue for the corresponding mail service.

### Controls Over EPS Ordering and Distribution

Limited controls over its online ordering and post office EPS channels has also impacted the Postal Service’s ability to effectively monitor and control standard EPS distribution, usage, and costs. From FY 2015 to FY 2019, the Postal Service fulfilled 79 percent of standard EPS order volume through online and post office channels, as shown in Figure 3.

**Figure 3. FYs 2015-2019 EPS Order Volume by Channel<sup>21</sup> (in millions)**



Source: FYs 2015-2019 channel volume data provided by the Postal Service and its standard packaging supplier.

With its online ordering channel, the Postal Service provides customers the ability to order standard EPS on its public website (USPS.com). Customers must create an online profile with a username and password. They can add any of the available EPS to their virtual cart, select the number of items needed (up to a specified maximum quantity), and ship the supplies to an address of their choice at no cost.

For the post office channel, the Postal Service uses the Solution for Enterprise Asset Management (SEAM)<sup>22</sup> system to track and restock EPS inventories for 16,030 post offices that receive automatic replenishment of the 11 core standard EPS items.<sup>23</sup> The remaining 15,437 post offices manually order EPS, as needed,

17 Click-N-Ship is an online postage service offered by the Postal Service that allows customers to create prepaid shipping labels for certain mail classes, including domestic and international Priority Mail and Priority Mail Express, using the customer’s own personal computer and printer.

18 PC Postage is postage that you print directly onto your envelope or label using your computer, software, and a printer.

19 APV systematically detects and collects postage adjustments due from packages paid through Click-N-Ship and PC Postage label providers.

20 We could not reliably determine the volume of non-Click-N-Ship and non-PC Postage pieces shipped in FY 2019 from available data reports.

21 The nine smallest channels include Stamps.com, eBayPlus, recurring orders, Endicia.com, Postal Service Mobile App, Ebay.com, Etsy.com, Mccann Marketing Orders, and Onyx.

22 SEAM is a centralized application that supports fulfillment, planning, and service management in order to improve the management of inventory and assets. The Postal Service uses SEAM to improve inventory tracking and visibility, implement forecasting and automatic replenishment capabilities, and standardize asset tracking.

23 Prior to FY 2020, there were 12 core EPS items. Core standard EPS items primarily include Priority Mail Express envelopes, Priority Mail Flat Rate envelopes, and Priority Mail mailing boxes.

via the eBuyPlus tool.<sup>24</sup> This tool sends the manual orders to SEAM for the standard packaging supplier to fulfill.

The Postal Service has established some controls over its online EPS ordering and post office channels. Its supplier of standard packaging uses customers' online profile information to flag questionable web-based orders<sup>25</sup> for denial or manual review, and it captures those orders on a fraud report.<sup>26</sup> In addition, the Postal Service has an exceptions process that identifies questionable EPS inventory counts entered at post offices that receive automatic replenishment of supplies. The SEAM system generates daily reports for exceptions such as multiple months of zero counts, no count change from the previous month, counts that exceed the maximum inventory level, and multiple months of identical counts. Asset Management personnel stated they review these reports daily and contact district retail managers to correct errors.

While the online controls help to mitigate overtly questionable orders, the Postal Service could include enhanced web-based controls that more effectively discourage waste and abuse. Some best practices that we have identified include:

- Not permitting customers to submit multiple different EPS orders under the same online profile to circumvent the single-order dollar threshold.
- Requiring non-commercial customers to enter a credit card number to submit online EPS orders.
- Surveying customers on how they plan to use the packaging supplies.

While these best practices may not be entirely appropriate for the Postal Service, they may provide insight for additional evaluation to further discourage customers from ordering EPS that they do not actually need or do not intend to use to mail expedited products.

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***“Enhanced visibility and controls over the inventories and order volumes of EPS at all offices would enable the Postal Service to make more informed decisions on EPS distribution and mitigate or reduce costs.”***

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In addition, while controls over EPS at post offices help to mitigate inaccurate reporting of on-hand EPS and the oversupply of EPS items at most offices, they do not do so for offices that are not automatically replenished. Since postmasters at about 49 percent of post offices use the eBuyPlus tool to manually replenish EPS inventory and do not have to submit on-hand counts in SEAM, their orders bypass SEAM controls in place to identify exceptions. If it is not feasible for management to maintain visibility of EPS inventories for eBuyPlus offices within the SEAM system, management should consider leveraging other data sources (for example, eBuyPlus data) to improve visibility over inventories for those offices. Enhanced visibility and controls over the inventories and order volumes of EPS at all offices would enable the Postal Service to make more informed decisions on EPS distribution and mitigate or reduce costs, where possible.

### **EPS Supplier Information Tool**

The Postal Service did not fully leverage an EPS online information tool developed by its supplier of standard packaging. The supplier provided a dashboard with supplier statistics<sup>27</sup> accessible to several different functional areas;<sup>28</sup> however, Postal Service personnel did not regularly access and monitor data from the tool. The contract also stipulated that the supplier provide mandatory monthly reports to the Postal Service. While management did provide

<sup>24</sup> An automated buying process from order to payment; it supports the accurate processing and management of invoices. It has been mandatory for all employees to use eBuyPlus for all requisitions starting in FY 2020. Prior to this, employees used eBuy2, since January 2003.

<sup>25</sup> Questionable orders include those with offensive or suspicious language in the name field and large orders that exceed a dollar threshold. In addition, there are manual reviews for excessive returns.

<sup>26</sup> In FY 2019, the fraud report identified about 498,000 orders, worth about \$7.2 million, that the supplier did not fulfill.

<sup>27</sup> These statistics include information on the supplier's fill rate, call center, shipment quantities, and order count per channel.

<sup>28</sup> Per the contract, the supplier was required to make the tool accessible to the EPS program management team, field sales representatives, headquarters sales support staff, customer analytics personnel, and the customer care partner. The tool needed to include data related to customer acquisition, growth, and retention; cost trends; customer ordering behavior; and, inventory levels.

evidence that the reports are available at their request, they did not provide evidence of receiving and retaining the reports on a recurring basis.

Personnel did not access the dashboard regularly because they primarily used the data from the dashboard, such as fulfillment levels, quantity shipment statistics, and contract payments, to track whether the Postal Service's total payments to the supplier fell within the minimum and maximum<sup>29</sup> contract dollar amounts. They did not use the dashboard data to evaluate EPS program performance. Personnel stated that they do request data reports in Excel format from the supplier on an as needed basis so they can perform their own analysis. However, when we requested copies of their data and analysis, they did not provide the data files or specific details on what analysis they performed and how frequently this occurred.

Personnel also stated that they conduct mid-year and end-of-year quarterly business reviews with the supplier to discuss cost savings initiatives and supply chain improvements. They also explained that the Supply Management group surveys Postal Service employees who work closely with the supplier for their feedback on whether the supplier consistently provides cost effective solutions and strives to contain or reduce costs for the Postal Service, among other things. While these actions may be helpful to the Postal Service, we believe management should also analyze the supplier-provided data available to them to verify whether the supplier has effectively contained or reduced costs, where possible, and to proactively identify opportunities for additional cost savings and improved efficiencies.

Without accessing and reviewing data on the volume and costs of standard EPS distributed through various channels, the Postal Service cannot effectively track standard EPS trends to make informed EPS distribution decisions or identify opportunities to reduce costs in real time. Further, if the Postal Service does not leverage data available in the supplier's dashboard, it risks paying for services

that go unused or used ineffectively. Finally, information from the dashboard could enhance program analysts' ability to make timely decisions on customer acquisition, growth, and retention, to conduct cost-benefit analyses, and to validate supplier performance.

#### **Recommendation #2**

We recommend the **Vice President, Product Innovation**, evaluate and implement, as appropriate, available options to gather more complete expedited packaging usage data.

#### **Recommendation #3**

We recommend the **Vice President, Product Innovation**, in coordination with the **Vice President, Mail Entry and Payment Technology**, evaluate and implement, as appropriate, available technology to scan all expedited mailpieces, to include non-Click-N-Ship and non-PC Postage pieces, to identify and recover postage due from improper usage of expedited packaging.

#### **Recommendation #4**

We recommend the **Vice President, Product Innovation**, in coordination with the **Vice President, Information Technology**, enhance online expedited packaging supply ordering controls to prevent customers from circumventing order thresholds and to further discourage waste.

#### **Recommendation #5**

We recommend the **Vice President, Product Innovation**, in coordination with the **Vice President, Supply Management**, develop a mechanism to provide greater visibility over expedited packaging supply (EPS) inventories and order volumes for eBuyPlus post offices. Periodically distribute and review data reports from the standard packaging supplier's information tool to evaluate the cost effectiveness of the EPS program.

<sup>29</sup> Per the contract, the Postal Service must spend a minimum of [REDACTED] million. Its maximum spend is [REDACTED] million.

### Finding #3: Expedited Packaging Supplies Cost Attribution

While the Postal Service aligned all EPS general ledger expense accounts to the appropriate cost segment<sup>30</sup> and cost component,<sup>31</sup> it did not accurately attribute EPS costs to the relevant domestic and international expedited products. The Postal Service uses RPW volume data to determine the proportions of total EPS costs to attribute to both domestic and international expedited products.<sup>32</sup> We found that the Postal Service did not account for volume from relevant RPW line items in its distribution of EPS costs between domestic and international products for FY 2019, as its costing methodology necessitates. Specifically, it did not distribute EPS costs for about 305 million expedited mailpieces (about 27 percent) between domestic and international products.

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*“We found that the Postal Service did not account for volume from relevant RPW line items in its distribution of EPS costs between domestic and international products for FY 2019, as its costing methodology necessitates.”*

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The Postal Service’s detailed non-public RPW report breaks out domestic and international expedited product data into different mail product categories within each major product group.<sup>33</sup> However, management stated that they had not updated costing calculations to account for changes to several mail categories. The omission of volume data from relevant RPW line items created an error in the calculations (distribution keys) for domestic and international expedited products, resulting in the inaccurate distribution of EPS costs between the relevant domestic and international products.

This issue existed prior to FY 2019; however, the error was magnified in FY 2019, as a reorganization of the non-public RPW report resulted in more relevant volume being omitted from the distribution keys that are used to assign EPS costs to both domestic and international expedited products. The reorganization of the report resulted in the omission of about 27 percent of relevant volume from distribution keys, as compared to only about 1-2 percent of volume in prior years. Further, as a result of our analysis, management identified errors in their methodology. These methodological errors will be corrected for FY 2020; therefore, we are not making a recommendation regarding that issue at this time.

We determined that the exclusion of relevant volume from the distribution keys caused the Postal Service to misallocate some EPS costs. Specifically, the Postal Service overestimated costs for international expedited products and underestimated costs for domestic expedited products by about \$92,000 each for FY 2019. The misallocated amount was only [REDACTED] percent of the total [REDACTED] million of EPS costs attributed to domestic and international expedited products. Although it did not have a material impact on the distribution of EPS costs, outdated distribution keys pose a data integrity risk,<sup>34</sup> such as the risk of reporting inaccurate attributable EPS costs for expedited products.

If the Postal Service does not update its distribution keys to capture all applicable RPW categories, we estimate it will again misallocate EPS costs to domestic and international expedited products in FY 2020.

#### Recommendation #6

We recommend the **Vice President, Pricing and Costing**, direct the **Manager, Cost Attribution**, to update the distribution keys for expedited packaging supply costs to reflect all expedited product Revenue, Pieces, and Weight (RPW) categories, and periodically review expedited product RPW categories to ensure distribution keys are up-to-date.

<sup>30</sup> A cost segment generally corresponds to a major division of the postal system of accounts.

<sup>31</sup> A cost component consists of cost elements that represent the finest level of cost analysis (with respect to estimating volume variability of costs) within a cost segment.

<sup>32</sup> The domestic and international products that are assigned EPS costs are Priority Mail, Priority Mail Express, Priority Mail International, and Priority Mail Express International.

<sup>33</sup> For example, Priority Mail Flat Rate Box – Regular, Priority Mail Flat Rate Envelope, and Priority Mail Flat Rate Padded Envelope.

<sup>34</sup> The risk that the authorization, completeness, and/or accuracy of transactions as they are entered into, processed, summarized, and reported by application systems are compromised due to inadequate recording structures.

## Management's Comments

Management agreed with recommendations 1, 2, and 6. They disagreed with recommendations 3, 4, and 5; however, they provided an alternate plan of action to address those recommendations. They also expressed concerns over certain statements within findings 1 and 2. We summarize management's key concerns below.

Regarding finding 1, management stated they consider a rolling 12-month period of revenue for specialized packaging shipments, not the prior 12-month period of revenue. They also stated that an assessment of customer eligibility needs to take into account all possible payment methods. For example, each customer can have multiple payment methods and revenue may not always be linked to the customer's EPS program account. Further, they stated that, prior to April 2020, personnel were not mandated to discontinue distribution of customized packaging to customers who did not meet the revenue threshold.

Regarding recommendation 1, management agreed and stated that, in August 2020, they implemented the EPS Application for Specialized Packaging, which pulls revenue data for each specialized packaging customer. Management stated they plan to also develop an EPS Application for Customized Packaging, which will communicate with internal Postal Service revenue systems to validate revenue. The target implementation date is September 30, 2021.

Regarding finding 2, management stated that an assessment of standard EPS volumes should take into account that some supplies (such as labels, stickers, and tags) do not have barcodes for monitoring purposes and do not have any revenue associated with them. They also stated that, although Priority Mail Express packaging is manually processed, Sales Service Associates (SSA) should always conduct acceptance scans using the UPC barcode during the acceptance process. Management stated that online customer EPS orders over the maximum amount are sent to an Operation Integration Specialist (OIS) for validation. Further, they stated that the EPS program office provided all data upon request to the OIG.

Regarding recommendation 2, management agreed and stated they plan to develop an EPS Universal Product Code (UPC) report that will assist in gathering

EPS usage data by a customer's unique Mailer Identification code. The target implementation date is March 31, 2021.

Regarding recommendation 3, management disagreed but offered an alternate plan of action. They plan to develop Revenue Assurance and Commercial Payment standard operating procedures (SOP) to track improperly used and short-paid EPS throughout the network. They also plan to implement postage validation at retail system software sites to identify EPS misuse. Further, management plans to partner with the Revenue Assurance group to have field revenue assurance specialists assist with sampling potentially shortpaid EPS. The target implementation date is September 30, 2021.

Regarding recommendation 4, management disagreed but offered an alternate plan of action. They plan to develop an SOP for robot orders based on internet protocol addresses for EPS shipments that were not actually requested by customers. The target implementation date is December 31, 2020.

Regarding recommendation 5, management disagreed but offered an alternate plan of action. They plan to review asset planning instructional documents related to EPS inventory and order volumes at post offices for updates to improve the visibility of EPS. Management also stated they will periodically distribute and review data reports from the standard EPS supplier information tool. The target implementation date is March 31, 2021.

Regarding recommendation 6, management agreed with the recommendation and stated that, after an extensive review, the Cost Attribution group improved its process and procedures to diminish the likelihood of a similar error occurring in the future. The group updated the summary codes used in the Excel formulas to compute relevant volumes. The group also became part of a cross-function technical group that meets periodically and communicates any changes to the mail categories on the RPW report. Management stated the distribution keys applied to EPS costs will correctly reflect all expedited RPW volume across relevant product categories in the FY 2020 Annual Compliance Report. The target implementation date is December 31, 2020.

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



## Evaluation of Management's Comments

We consider management's comments responsive to recommendations 1, 2, 3, and 6. The corrective actions should resolve the issues identified in the report. However, we consider management's comments partially responsive to recommendations 4 and 5.

Regarding management's concerns with statements in finding 1:

- We conducted our revenue analysis on a rolling 12-month period from the first month each customer received an EPS order within our review period (see [footnote 2](#)). Our results only took into consideration instances when customers had received EPS when they had not met the annual revenue commitment for the rolling 12-month period up to when they received the packaging.
- To assess customer generation, we reviewed the same revenue reports that management used to track expedited revenue. Although we asked for any additional data sources used to monitor customers' revenue commitments during our review and in meetings with management, they did not provide them. Therefore, if management believes the revenue report is incomplete, they should work with appropriate offices to ensure they capture all relevant revenue data to accurately monitor customer eligibility.
- We used the January 2016 version of Publication 22 for our review because that was the version available during the review period. The policy stipulated that customized packaging was available only to customers who met the annual revenue commitment of \$250,000. This indicated that personnel should have discontinued distribution of customized packaging to customers that did not meet that revenue threshold.

Regarding management's concerns with statements in finding 2:

- Our analysis of unaccounted for standard packaging only considered free standard boxes and envelopes, not labels, stickers, and tags. All supplies considered in this analysis have barcodes used for monitoring purposes and have expedited revenue associated with them.

- During our review, management provided EPS scan reports that tracked EPS for automated mailpieces that had re-entered the mailstream. They explained that the reports did not capture EPS for manually processed mailpieces. They also explained that, since Priority Mail Express is mostly processed manually, EPS scan reports would not capture usage for those mailpieces. During interviews and correspondence throughout the audit, management and key personnel did not inform us that SSAs conduct an acceptance scan of the EPS UPC barcodes on Priority Mail Express mailpieces and did not indicate that usage data may be available for these items.
- After issuance of the draft report, management provided an SOP that specified a process for handling EPS orders that exceed maximum quantities. However, customers can place EPS orders through multiple channels, and the SOP did not specifically reference orders placed through the Postal Service's public website (USPS.com). Therefore, we cannot determine whether the controls outlined in the SOP would prevent customers from submitting multiple different EPS orders under the same online profile to circumvent the single-order dollar threshold.
- During the audit, EPS program office personnel provided us with revenue data for specialized and customized packaging customers, EPS invoice data, and standard packaging volume data. However, as management acknowledged in correspondence after issuance of the draft report, they did not provide us examples of the mandatory monthly report data stipulated in the standard packaging supplier contract during our review. While they did provide some examples of monthly reports (such as the Daily Inventory, Product Analysis, Volume Statistics, and Channel Analysis reports) after draft report issuance, management did not demonstrate that they had been receiving and using these data reports on an ongoing basis.

Regarding recommendation 4, management's plan to develop SOP for robot orders of EPS may help discourage waste. We believe this will not fully address the issue because the customer orders we refer to in the finding follow a different process than robot orders do. Therefore, SOP for robot orders will not be able to prevent customers from submitting multiple different EPS orders under the same online profile to circumvent the single-order dollar threshold.

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Regarding recommendation 5, management's plan to periodically distribute and review data reports from the standard EPS supplier information tool meets part of the intent of our recommendation. However, we believe that reviewing instructional documents for potential updates, on its own, will not ensure greater visibility of EPS inventories and order volumes for eBuyPlus post offices.

Management should identify more effective mechanisms to better leverage the EPS data to improve visibility of EPS at these offices.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed. We view the alternate plans of action for recommendations 4 and 5 as partially responsive and plan to pursue them through the formal audit resolution process.

# Appendices

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# Appendix A: Additional Information

## Scope and Methodology

The scope of the audit included a review of EPS program monitoring controls over the distribution and usage of supplies from FY 2015 to FY 2019. Specifically, we assessed how the Postal Service monitors costs, generates new revenue, and manages EPS inventories. We also determined whether all costs associated with the EPS program were fully and accurately attributed to expedited products.

To accomplish our objective, we:

- Reviewed policies and procedures related to the distribution, management, revenue validation, payment, and cost attribution of EPS.
- Analyzed and trended EPS volume distributed and used, revenue generated, and costs incurred for the EPS program.
- Analyzed and trended volume, revenue, attributable costs, and cost coverage for expedited products.
- Interviewed personnel in the Product Innovation, Supply Management, Pricing and Costing, Controller, Sales, Marketing, Engineering Systems, and Mail Entry and Payment Technology groups to determine:
  - The objectives of the EPS program and whether the program has generated revenue in line with those objectives.
  - The processes and procedures for validating customer eligibility and orders for specialized and customized packaging, managing standard packaging inventories and monitoring order volume and costs, reviewing and certifying EPS suppliers' invoices for payment, and attributing EPS costs to expedited products.
  - The methods for tracking EPS usage.
- Evaluated internal controls over the EPS program to validate that customers qualified for specialized and customized packaging and to assess whether

the Postal Service tracked and monitored distribution and usage of standard packaging and discouraged and remediated improper use of expedited packaging.

- Identified and analyzed costs for the procurement, storage, and transportation of EPS.
- Evaluated the costing methodology to determine if all costs were accurately and reliably attributed to products.

We conducted this performance audit from September 2019 through October 2020 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 September 18, 2020, and included their comments where appropriate.

We assessed the reliability of EPS data provided by the Postal Service to ensure key fields contained the data needed for our analysis. We performed logical tests of completeness on these fields. We also interviewed knowledgeable officials from the following Postal Service groups about how the data was collected and used:

- Shipping Products
- Business Intelligence
- Asset Management
- Commercial Payment
- Internal Reporting

- Process Improvement and Analysis
- Customer Products and Fulfillment
- Cost Attribution

We determined that the data were sufficiently reliable for the purposes of our analysis.

### **Prior Audit Coverage**

The OIG did not identify any prior audits or reviews directly related to the objective of this audit within the last five years.

# Appendix B: Management's Comments

## Response from VP Product Innovation to Draft Report - Expedited Packaging Supplies Program Costs (Project Number 19-009-DRAFT) September 25, 2020

### Finding #1: Specialized and Customized Revenue Requirements

**Page 2:** "Specifically, we identified at least 193 instances when the Postal Service provided those 71 customers with specialized packaging; however those customers had not generated the required minimum expedited revenue (\$50,000) within the prior 12-month period of receiving the packaging."

#### Specify Disagreement:

- For specialized packaging, when a customer starts with the Postal Service, it is not the prior 12-month period of revenue that is considered; it is a rolling 12-month period of revenue that specialized packaging will take into account from the time they receive their first shipment.
- To ensure that a new customer is qualified, Sales will forecast how much revenue will be generated from the new customers. When a new customer is moving to the USPS from a competitor (i.e. FedEx, UPS), the customer can generate more than \$50,000 over the next 12 months.
- In addition, Specialized Packaging also has "seasonal" customers that may generate revenue in a specific period but are required to still meet the revenue threshold of months (i.e. fruit farmers), which the Expedited Packaging Supplies Program continuously observes to ensure customers are meeting the generated revenue requirements.
- Of the possible 71 customers mentioned, each customer can have multiple payment methods and sometimes new accounts are established that were not previously linked to the customer's and may engage with re-sellers. All possible payment methods need to be taken into account to validate the customers in question.
- The Expedited Packaging Supplies Program has been utilizing the BCI (Business Customer Intelligence) report since May 30, 2018 to ensure customers are meeting revenue thresholds. The report is reviewed and analyzed on a per month basis and if any customers are not meeting revenue thresholds, the Expedited Packaging Supplies specialist will notify a Sales Point of Contact. The customer will not get specialized packaging until they are on track to meet the revenue threshold.
- Currently, with the newly developed NCMS Expedited Packaging Supplies Application for Specialized Packaging that went live on August 22, 2020, it is linked to the Customer Data Mart (CDM) that enables the program to monitor the revenue contribution by customer.
- The Specialized Packaging program during FY 2015 to FY 2019, requires that the packaging being requested generate at least \$50,000 in Expedited revenue over 12-month period.
- April FY 2020, the Expedited Packaging program increased the revenue threshold requirements for Specialized Packaging from \$50,000 to \$75,000.

### Finding #1: Specialized and Customized Revenue Requirements

**Page 3:** "In addition, the Postal Service distributed customized packaging to 17 of 165 customized packaging customers (about 10 percent) that never met the annual revenue commitments (\$250,000) during FY 2015 to FY 2019. For those 17 customers, we identified at least 68 instances when the Postal Service provided customized packaging when they never generated the required minimum expedited revenue."

#### Specify Disagreement:

- From FY 2015 to FY2019, Customized Packaging was not mandated to discontinue any customer requests or contact customers not meeting the revenue thresholds. Effective April 2020, Customized Packaging must now meet the annual revenue threshold of \$350,000 in new annualized expedited revenue. The customer must be able to meet the minimum pallet requirement, accept, store and use the pallets of packaging that they are ordering (Publication 22, Customized Packaging, Page 18).
- The Business Customer Intelligence (BCI) Report has been available since May 2018, which the Expedited Packaging program has used to verify customers are meeting revenue

requirements. Using this report, Postal Service representatives can quickly assess customers and their revenue trend. Appropriate decisions are made, especially if trends could result in the customer being ineligible to qualify for Customized Packaging the next time they wish to reorder. This BCI report helps to investigate low-trending revenues. Currently, an Expedited Packaging Universal Postal Code (UPC) Report is under development that will display all packaging passing through the mail processing equipment based on the customer's Mailer ID.

#### **Finding #1: Specialized and Customized Revenue Requirements**

**Page 3:** "According to Postal Service policy, EPS program objectives include generating new revenue and growing the business through new and existing customers. For our analysis period, the policy stated that customers must generate a minimum of \$50,000 or \$250,000 in new, annualized expedited revenue to receive specialized or customized packaging, respectively. Customers must meet the revenue qualification every time they order additional packaging."

#### **Specify Disagreement:**

- Customers revenue commitment to the Postal Service is a rolling 12-months – it is not per order as stated above.
- Customized Packaging consists of boxes, envelopes, cohesive packaging, and address labels that are created to meet a customer's specific needs beyond those that can be met through Standard or Specialized Packaging products. The objective of the Customized Packaging program is to obtain new business or retain existing business that would otherwise go to Postal Service competitors.
- The average cost of the packaging is included in the current price structure of the corresponding delivery service. Although the customer receives the Expedited Packaging items at no added cost, Postal Service Sales Representatives are aware that these Expedited Packaging items carry real costs to the Postal Service. These costs are offset only by the revenue generated by the corresponding services. The customer must therefore use the items in their intended manner for the cost to be recovered. For this reason, the Postal Service ensures that the supplies it provides are used appropriately.
- Customers must agree to use the Expedited Packaging in conjunction with the corresponding service. A Postal Service Sales Representative must obtain and monitor volume commitments related to the production of Specialized and Customized Packaging and use of Standard Packaging. Customers must have the room to store the packaging they are ordering, and Post Offices must not store pallets of Expedited Packaging for Customers (Publication 22, Packaging: Relationship to Rate Structure, Page 2).
- A customer for customized packaging may have multiple deliveries set up throughout the year per the contract from the beginning. Customers do not need to meet the revenue qualification every time they order additional packaging, however they must meet the revenue commitment one year from receipt of their first shipment. Additional packaging orders may be due to storage space, minimum runs, and trailer loads. There is a huge array of scenarios of why a customer gets additional packaging per each set of specifications, which must be assessed by each individual customer.
- The Customized Packaging program during FY 2015 to FY 2019, requires that the packaging being requested generate at least \$250,000 in new Expedited revenue over a 12-month period.
- April FY 2020, the Expedited Packaging program increased the revenue threshold requirements for Customized Packaging from \$250,000 to \$350,000 to ensure large volume mail orders to meet the commitments.
- The Specialized Packaging program during FY 2015 to FY 2019, requires that the packaging being requested generate at least \$50,000 in Expedited revenue over 12-month period.
- April FY 2020, the Expedited Packaging program increased the revenue threshold requirements for Specialized Packaging from \$50,000 to \$75,000.
- The Customized Packaging Checklist, Postal Service Sales representatives place an order by completing PS Form 4004-C, *Customized Packaging Business Case Order Form*, also including a report for the past 12 months of Expedited revenue that confirms that the customer

qualifies. For new customers, a revenue report or CFAST report or other documentation confirming the annual volumes used to determine projected revenue to justify that the customer is committing to meet the Expedited revenue requirements as stated in Publication 22, Page 19.

- Prior to 2020, Customized Packaging was not mandated to discontinue any customer requests or contact customers not meeting the revenue thresholds. Customized Packaging has continued to follow protocol and continued to provide packaging to customers meeting the minimum order quantity required or have confirmation of the packaging being used.
- Of the possible 17 customers mentioned, each customer can have multiple payment methods and sometimes new accounts are established that were not previously linked to the customer's and may engage with re-sellers. All possible payment methods need to be taken into account to validate the customers in question.

#### **Finding #1: Specialized and Customized Revenue Requirements**

**Page 3:** "We found that in the 16 months prior to May 2018, there were 48 instances where the Postal Service provided specialized packaging to customers who did not meet the revenue commitment. In the 16 months after May 2018, there were 35 instances where this occurred. This 27 percent reduction is a positive improvement; however, the Postal Service continued to provide specialized and customized packaging to ineligible customers."

#### **Specify Disagreement:**

- During the period of the one-year commitment for Expedited Packaging revenue, the customer payment method sometimes was switched to a reseller account and the Postal Service was not notified of the new payment method. (Publication 22, Page 5 and 6)
- From FY 2015 to FY2019, Customized Packaging was not mandated to discontinue any customer requests or contact customers not meeting the revenue thresholds. Effective April 2020, Customized Packaging must now meet the annual revenue threshold of \$350,000 in new annualized expedited revenue. The customer must be able to meet the minimum pallet requirement, accept, store and use the pallets of packaging that they are ordering (Publication 22, Customized Packaging, Page 18).
- Prior to the inception of the BCI report in May 2018, the Expedited Packaging program did not have information readily available to confirm customers meeting the required revenue commitment. In addition, the Expedited Packaging Supplies Program did not have access to systems linking with revenue and customers which OIS and Sales have access to and oversee monitoring customer revenue thresholds.
- Since April 2020, the Expedited Packaging program stopped providing packaging to customers that are using resellers that did not provide a unique Mailer ID. The Expedited Packaging program does not control when a customer switches to a reseller and must be notified by USPS Sales. USPS Sales understands that when a customer goes to a reseller they must communicate the new payment method, so we can properly track the revenue. Once USPS Sales knows of the switch to a reseller, they will communicate with the customer to explain the issue.
- The 48 instances prior to May 2018, each customer can have multiple payment methods and sometimes new accounts are established that were not previously linked to the customer and may engage with resellers. All possible payment methods were not taken into account to validate the customers in question.
- The 35 instances after May 2018, each customer can have multiple payment methods and now we have the ability to link multiple accounts to a customer. All possible payment methods need to be taken into account to validate the customers in question.



**Finding #1: Specialized and Customized Revenue Requirements**

**Page 4:** "Due to limitations of the Postal Service's invoice data from its customized packaging suppliers, we could not calculate the dollar value of customized packaging it distributed to ineligible customers. We also could not quantify how much those customers had fallen short of revenue commitments."

**Specify Disagreement:**

- The Postal Service's invoice data from its customized packaging suppliers can be found in iSupplier, an accessible database that can be provided by Supply Management.
- The value of Customized Packaging can be provided by Supply Management per the contracts that are in place with the suppliers.
- All Customized Packaging requests are submitted on a PS Form 4004-C, *Customized Packaging Business Case Order Form*.

**Recommendation #1:**

"We recommend the **Vice President, Product Innovation**, in coordination with the **Vice President, Sales**, continue to enhance monitoring of customer revenue generation to prevent the distribution of specialized and customized packaging to ineligible customers who do not meet revenue commitments."

**Agreement:**

- The Expedited Packaging Supplies program has continuously enhanced the monitoring of customer revenue generation to prevent the distribution of specialized and customized packaging to ineligible customers who do not meet the revenue commitments. Reports have been created over the years, as well as the new Expedited Packaging Supplies Application for Specialized Packaging allowing Sales employees to access the application from their computer to enter Specialized Packaging orders. The application pulls the revenue for each customer based on the Panorama 18-Digit ID that is entered. Sales can pull Specialized packaging reports on their customers and check order status. The following items are already in place to support the monitoring of customer revenue generation:
- Customized and Specialized Packaging Supplies Revenue Report (Companies "Not" Meeting Revenue Threshold) – Business Customer Intelligence (BCI) Report – Available as of May 30, 2018
- Expedited Packaging Supplies Application for Specialized Packaging – Available as of August 22, 2020
- Trained OIS/TIS, Field Account Representatives, Business Service Network on the new Expedited Supplies Application for Specialized Packaging – August thru September 2020
- Updated Publication 22 (Qualified Payment Methods) – Available as of April 2020
- Increased thresholds for Specialized (\$75,000) and Customized Packaging (\$350,000) – Available as of April 2020
- The Expedited Packaging Supplies Program have communicated with Sales and OIS to become more aware of monitoring customers to meet the revenue thresholds
- Communicated to Field Post Offices of the 16 Standard Packaging that is permitted in offices
- Lowered the Machineability Criteria for Expedited Packaging Supplies to 12" x 12" x 15" (previously was 17" x 17" x 27") this allows for better visibility for processing (Publication 22, Page 17)
- Established Expedited Packaging Supplies Change Control Board for packaging that does not meet the current machineability criteria (Publication 22, Page 17 and 18)
- Victory Packaging USPS EPS Report – Available as of September 21, 2020
- Holiday Push Plan – Available as of September 22, 2020

**Plan of Action Summary:**

The Expedited Packaging Supplies Program will develop the following in FY 2021:

- Develop NCMS Expedited Packaging Supplies Application for Customized Packaging to automate the process for ordering Customized packaging and creating reports. In the past this was done manually. This application allows USPS employees to log into the system, find their customer, validate revenue and place orders for Customized packaging. The application communicates with internal USPS revenue systems to validate revenue. Order requests are sent to the Expedited Packaging Supplies Specialist for review and approval, and if approved, are sent to the supplier for fulfillment. All Customized orders are required to be entered through the Expedited Packaging Supplies Application. The PS Form 4004-C, *Customized Packaging Business Case Order Form* will no longer be available after the application will be launched.
  - Target Implementation Date: Quarter 4 FY2021 for Customized Packaging
  - Management Official Responsible for Implementation: Expedited Packaging Specialist, Program Manager Information Technology
- Develop an Expedited Packaging Supplies Report for Delivery Operations report that will indicate which Post Offices did not execute a Delivery scan event. This report helps to identify non-receipt of packaging and the potential increase of reorder due to non-receipt.
  - Target Implementation Date: End of Quarter 1 FY2021
  - Management Official Responsible for Implementation: Expedited Packaging Specialist
- Develop Expedited Packaging Supplies Universal Product Code (UPC) reporting of Expedited Packaging Supplies processed based on UPC barcode and customer's unique Mailer ID in the mail processing environment. This report will assist in gathering usage data based on UPC barcode and customer.
  - Target Implementation Date: End of Quarter 2 FY2021
  - Management Official Responsible for Implementation: Expedited Packaging Specialists

#### Finding #2: Standard Packaging Cost Controls

**Page 6:** "The Postal Service could not fully account for the one billion pieces of standard packaging because it:

- Did not track EPS usage data for all automated and manually processed mailpieces.
- Only tracked and remediated improper EPS usage for some expedited products.
- Had limited controls over online and post office EPS ordering and distribution.
- Did not sufficiently monitor EPS data from its supplier of standard packaging."

#### Specify Disagreement:

- Standard Packaging supplies also includes packaging for markings. Revenue is not associated with packaging marking and address mailing, which should be taken into account. Specifically, for labels, stickers, and tags (i.e. Label 228, Label 228C), these supplies do not have barcodes for monitoring purposes, but are created to improve customer satisfaction and visibility of packaging handled during delivery and processing operations. Labels such as Labels 228 and 228C, which account for 744,757,687 labels during FY2015-FY2019, the proper way to monitor the volume is through the Service Type Code for the product of Priority Mail or Priority Mail Express.
- Any customers that order over the maximum on USPS.com (Postal Store) is sent to USPS Operation Integration Specialist (OIS) for validation Standard Operating Procedures for Standard Packaging approvals that exceed the maximum have been developed since February 26, 2020. See attached "Expedited Packaging Supplies Standard Packaging Standard Operating Procedures (SOP)".
- A service talk was distributed on August 10, 2020 to all Post Office locations nationwide to SSAs that they must scan the Universal Product Code (UPC) on all Expedited Packaging Supplies (EPS).
- Develop the Expedited Packaging Supplies Universal Product Code (UPC) Report, a reporting of Expedited Packaging Supplies being processed in the mailstream.
- Working with Revenue Assurance and Commercial Payment SOPs are available to track EPS supplies throughout the network. See attached "Revenue Assurance Standard Packaging Standard Operating Procedures (SOP)".

- invoicing was in place and allows the EPS Program to monitor the purchase of packaging supplies and has reduced the human error no later than January 2020. See attached Standard Work Instructions: Standard Packaging – Electronic Data Invoicing (EDI).
- Quarterly business reviews are conducted with the supplier, Supply Management, and the Expedited Packaging Supplies Program office to review EPS data and recommendations. Supply management has provided the reports during the quarterly business reviews.

**Finding #2: Standard Packaging Cost Controls**

**Page 6:** "However, the EPS volume report did not capture the full universe of automated mailpieces in expedited packaging. To generate the report, the Postal Service used data captured by the following mail processing equipment:

- Automated Parcel Bundle Sorter (APBS)
- Automated Package Processing System (APPS)
- Enhanced Package Processing Sorter (EPPS)
- High Throughput Package Sorter (HTPS)
- Parcel Sorting Machine (PSM)"

**Specify Disagreement:**

- Based on the machines listed, APPS and EPPS have six-sided cameras, the APBS, HTPS, and PSM only have top-read cameras. APBS, HTPS, and PSM may not capture all volume of expediting packaging run on those machines because they can only read an EPS barcode if the barcode is facing in the direction of the one camera. In addition, machines used by the Postal Service are not all listed and does not accurately represent packaging coming through the mailstream. For instance, the HSS Machine is used for non-machinable items.
- Processed through USPS Facilities Scan Event 10 is not utilized in manual operations. Any Expedited Packaging Supplies that are not machinable will lose visibility in a mail processing environment.
- The Machineability Criteria is based on Package Sorter Type. Refer to the Package Sorter Machine Chart (shown below):

Package Sorter	# of Sorters	Minimum (H x W x L)	Maximum (H x W x L)
ADUS	36	0.1" x 3" x 3"	15" x 18" x 22"
APBS	220	0.1" x 3" x 3"	12" x 12" x 15"
APPS	74	0.1" x 3" x 3"	15" x 18" x 22"
SPSS (Pilot)	5	0.1" x 3" x 3"	10" x 14" x 18"
SPSS (Production)	35	0.1" X 3" x 3"	10" x 16" x 22"
HTPS	2	0.1" X 3" x 3"	10" x 16" x 22"
EPPS	1	0.1" x 3" x 3"	15" x 18" x 22"
USS (ACT Model)	10	0.75" x 6" x 6"	18" x 24" x 42"
USS (Honeywell Model)		0.75" x 6" x 6"	28" x 24" x 60"
HSUS (Angle Induction)	15	0.5" x 5" x 9"	28" x 30" x 42"
HSUS (Inline Induction)		0.5" x 5" x 9"	28" x 30" x 60"
PSM	50	0.25" x 3" x 6"	17" x 17" x 27"
Rapistan	5	0.25" x 4" x 4"	17" x 17" x 27"

- The Expedited Packaging program has continuously improved products to provide visibility and has provided barcodes on all six sides of boxes. Although the Expedited Packaging Program provided visible barcodes to be scanned on machines, customers may place labels over barcodes preventing barcodes to be read.
- The Expedited Packaging Supplies Program receives monthly EPS Tracking by Barcode Report, assist to identify packaging based on the UPC barcode. Future plans are to include UPC barcode and unique customer Mailer ID in the report.

**Finding #2: Standard Packaging Cost Controls**

**Page 7:** "Management stated that while the APPS and EPPS have six-sided cameras, the APBS, HTPS, and PSM only have top-read cameras. This means that the APBS, HTPS, and PSM may not capture all volume of expediting packaging run on those machines because they can only read an EPS barcode if the barcode is facing in the direction of the one camera. Management also stated that, in the past, the placement of the mailing label graphic on the packaging caused customers to place labels over the EPS barcode, which also inhibited volume tracking by automated equipment. However, they have changed the placement of the mailing label graphic on the packaging to improve tracking of EPS usage data for automated mailpieces."

**Specify Disagreement:**

- The Expedited Packaging program has continuously improved products to provide visibility and has provided barcodes on all six sides of boxes. Although the Expedited Packaging Program provided visible barcodes to be scanned on machines, customers may place labels over barcodes preventing barcodes to be read. TIC marks for the shipping label have been placed in the vertical position of 4" x 6" to improve the barcode visibility (see image below).



- APPS, SPSS, and HTPS (one full time) all loop up to three times then items are sent to the reject bin. Once in the reject bin, they are then pulled and processed manually, then they lose any scanning visibility in mail processing.

**Finding #2: Standard Packaging Cost Controls**

**Page 7:** "In addition, the EPS volume report did not capture EPS for manually processed mailpieces because those items are not scanned on automated equipment. According to management, the Postal Service manually processes a significant number of Priority Mail Express pieces. They provided a week's worth of commercial Priority Mail Express summary data which showed that the Postal Service manually processed about 94 percent of the mailpieces. Therefore, there is likely a considerable amount of free Priority Mail Express packaging that the Postal Service cannot track in the mail stream."

**Specify Disagreement:**

- Priority Mail Express packaging is manually processed nationally in the mail processing environment. Sales Service Associates (SSAs) should always conduct an acceptance scan and scan the Universal Product Code (UPC) barcode during the acceptance process.
- See attached recently issued Service Talk of August 2020, "Scanning USPS Expedited Packaging Supplies (EPS) for Retail Employees" communicating the importance that SSAs must scan the UPC barcode on all Expedited Packaging Supplies.

**Finding #2: Standard Packaging Cost Controls**

**Page 8:** "Figure 2. Improperly Used EPS for First-Class Mail"



**Specify Disagreement:**

- Cases such as Figure 2, are reported to Revenue Assurance and the Inspection Service; not directly through the Expedited Packaging Program. If such cases occur, the Expedited Packaging Program will receive notification from Revenue Assurance and the Inspection Service. The process with Revenue Assurance has been in place since 2016. See attached "Revenue Assurance Standard Packaging Standard Operating Procedures (SOP)".
- Package Platform (PPC) evaluates captured packaging barcode against claimed characteristics for domestic PC Postage outbound and USPS returns to determine if pricing error has occurred:
  - Priority Mail product used with First Class Parcel Service label
  - Priority Mail Military Flat Rate Box used with Priority Mail Small/Medium Flat Rate Box
  - Priority Mail Flat Rate boxes and envelopes, Priority Mail Regional Rate boxes, Priority Mail cubic boxes, and Priority Mail zone weight packaging all considered for either standard or customized packaging
  - A future report will be provided to monitor any misuse of Expedited Packaging Supplies monthly
- Correspondence to customers abusing Expedited Packaging Supplies from the Postal Inspection Service. See attached "Letter of Misuse of Priority Mail Supplies from Postmaster to Customer"

**Finding #2: Standard Packaging Cost Controls**

**Page 10-11:** "The Postal Service has established some controls over its online EPS ordering and post office channels. Its supplier of standard packaging uses customers' online profile information to flag questionable web-based orders for denial or manual review, and it captures those orders on a fraud report. In addition, the Postal Service has an exceptions process that identifies questionable EPS inventory counts entered at post offices that receive automatic replenishment of supplies."

**Specify Disagreement:**

- For multiple Standard orders on USPS.com, there is a process in place where Victory Packaging notifies the Expedited Packaging program, which then sends communications to the OIS field manager to investigate and validate the customer's needs. See attached "Expedited Packaging Supplies Standard Packaging Standard Operating Procedures".
- The Manager, Asset Planning – Retail/Marketing has Standard Operating Procedures in place to have Post Offices conduct cycle counts on a four-week schedule (28 days) and monitors the usage of Standard Packaging Supplies. See attached "Asset Planning's Expedited Packaging Supplies (EPS) Audit Standard Operating Procedures (SOP)" that provides instructions for cycle counting of Expedited Packaging Supplies (EPS) at selected retail units available as of December 2012. Cycle counting is required to support automatic replenishment of selected EPS inventory.
- Asset Planning uses the file "Cycle Count to Districts" (see attached) to send to the field when they observe cycle counts that are questionable. Asset Planning will send this file to the District Retail Manager (DRM), Consumer Service Program Analysts (CSPA), Retail Specialists, and each Post Office the week after their scheduled cycle count. The file also includes a template that Asset Planning uses to communicate to the DRM, an item list, the Cycle Count SOP, and the Cycle Count Schedule. Asset Planning reviews the following categories:

- Multiple zero counts
- No changes from previous month
- Large counts
- Multiple identical counts

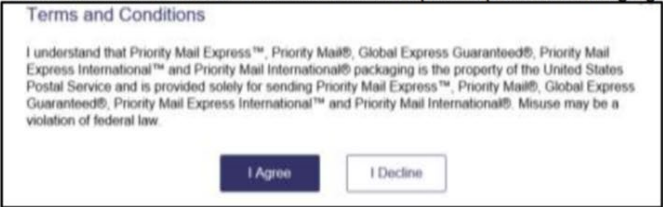
**Finding #2: Standard Packaging Cost Controls**

**Page 11:** "While the online controls help to mitigate overtly questionable orders, the Postal Service could include enhanced web-based controls that more effectively discourage waste and abuse. Some best practices that we have identified include:

- Not permitting customers to submit multiple different EPS orders under the same online profile to circumvent the single-order dollar threshold.
- Requiring non-commercial customers to enter a credit card number to submit online EPS orders.
- Surveying customers on how they plan to use the packaging supplies.

**Specify Disagreement:**

- For multiple Standard orders on USPS.com, there is a process in place where Victory Packaging notifies the Expedited Packaging program, which then sends communications to the OIS field manager to investigate and validate the customer's needs.
- Expedited Packaging is not allowed to charge for packaging. The cost of packaging is included in the postage for all Expedited Packaging Supplies. When orders come into the call center the customers are reminded at the end that these supplies are property of the USPS and that the supplies must be used for its intended use in shipping Priority Mail and Priority Mail Express Packaging. A disclaimer statement is printed on all Expedited Packaging, stating that the customers must use the packaging for intended use and it is the property of the Postal Service.
- Disclaimer on Packaging states, "This packaging is the property of the U.S. Postal Service® and is provided solely for use in sending Priority® shipments. Misuse may be a violation of federal law. This packaging is not resale".
- Refer to Expedited Packaging Supplies Standard Packaging Standard Operating Procedures .
- Improvement to the Postal Store ([https://store.usps.com/store/results/shipping-supplies/\\_/N-7d0v8v#content](https://store.usps.com/store/results/shipping-supplies/_/N-7d0v8v#content)) for Expedited Packaging Supplies was conducted in FY 2020.
- During checkout on the Postal Store, a customer is required to read and either agree or decline to the Terms and Conditions on the Postal Store for receipt of Expedited Packaging Supplies.



**Finding #2: Standard Packaging Cost Controls**

**Page 11:** "While the Postal Service offers EPS at more than 31,000 offices (about 91 percent), its two largest competitors limit free packaging to a total of only about 3,100 (about 37 percent) of their locations combined. Enhanced visibility and controls over the inventories and order volumes of EPS at all offices would enable the Postal Service to make more informed decisions on EPS distribution and mitigate or reduce costs, where possible."

**Specify Disagreement:**

- Distributed Poster 221, Expedited Packaging Supplies Available at Retail nationwide on August 10, 2020. See attached, "Poster 221, Expedited Packaging Available at Retail"

- All auto replenished shipments for planned and non-planned offices are managed by Asset Planning. For eBayPlus orders Asset Planning reviews the orders on a daily basis. See attached "Asset Planning's Expedited Packaging Supplies (EPS) Audit Standard Operating Procedures (SOP)" that provides instructions for cycle counting of Expedited Packaging Supplies (EPS) at selected retail units available as of December 2012. Cycle counting is required to support automatic replenishment of selected EPS inventory.

**Finding #2: Standard Packaging Cost Controls**

**Page 11-12:** "The Postal Service did not fully leverage an EPS online information tool developed by its supplier of standard packaging. The supplier provided a dashboard with supplier statistics accessible to several different functional areas; however, Postal Service personnel did not regularly access and monitor data from the tool. The contract also stipulated that the supplier provide mandatory monthly reports to the Postal Service. While management did provide evidence that the reports are available at their request, they did not provide evidence of receiving and retaining the reports on a recurring basis."

**Specify Disagreement:**

- The Expedited Packaging Supplies Program and Supply Change Management fully leveraged information developed by its supplier of Standard Packaging (Victory Packaging) by discussing the reports during the quarterly business review meetings to ensure suppliers are meeting the qualification and requirements from the Postal Service. In addition, Victory Packaging has its own dashboard that they use to monitor data and stay accountable with the Expedited Packaging Supplies program.
- The Expedited Packaging Supplies Program provided all data upon request and stated that the file size was too large. Therefore, the OIG developed a special website to enable Victory Packaging to upload the file that was too large to email to the Expedited Packaging Supplies Program and the OIG provided in FY 2020.

**Finding #2: Standard Packaging Cost Controls**

**Page 12:** "Personnel did not access the dashboard regularly because they primarily used the data from the dashboard, such as fulfillment levels, quantity shipment statistics, and contract payments, to track whether the Postal Service's total payments to the supplier fell within the minimum and maximum contract dollar amounts. They did not use the dashboard data to evaluate EPS program performance. Personnel stated that they do request data reports in Excel format from the supplier on an as needed basis, so they can perform their own analysis. However, when we requested copies of their data and analysis, they did not provide the data files or specific details on what analysis they performed and how frequently this occurred."

**Specify Disagreement:**

- The information was provided to the previous manager and the Expedited Packaging Supplies Program has routine meetings with Victory Packaging reviewing reports in detail. This was stated several times in the OIG meetings. This information was provided as requested from Supply Management and Program Office.
- Data requested was provided and uploaded from Victory Packaging to a WatchDox site that was provided by the OIG.
- Expedited Packaging Supplies Program and Supply Management also has Quarterly Business Reviews with the suppliers. Price schedules are established by Supply Management in the individual contracts.

**Finding #2: Standard Packaging Cost Controls**

**Page 12:** "Personnel also stated that they conduct mid-year and end-of-year quarterly business reviews with the supplier to discuss cost savings initiatives and supply chain improvements. They also explained that the Supply Management group surveys Postal Service employees who work closely with

the supplier for their feedback on whether the supplier consistently provides cost effective solutions and strives to contain or reduce costs for the Postal Service, among other things. While these actions may be helpful to the Postal Service, we believe management should also analyze the supplier - provided data available to them to verify whether the supplier has effectively contained or reduced costs, where possible, and to proactively identify opportunities for additional cost savings and improved efficiencies.”

**Specify Disagreement:**

- The supplier (Victory Packaging) does not negotiate Expedited Packaging Supplies packaging contracts. Those costs are done by Supply Management and then a contract is put in place. Victory Packaging has brought numerous cost savings to the USPS which Supply Management has all the records. The suppliers are working under a contractual price structure and follow the contract as directed by Supply Management.

**Recommendation #2:**

“We recommend the **Vice President, Product Innovation**, evaluate and implement, as appropriate, available options to gather more complete expedited packaging usage data.”

**Agreement:**

The Expedited Packaging Supplies Program has continuously found ways to improve and gather complete Expedited Packaging Supplies usage data. The following items are already in place to evaluate and implement Expedited Packaging usage data:

- A Victory Packaging USPS EPS Report was developed as of September 21, 2020. This report provides information about the Expedited Package Supplies (EPS) volume in the USPS network, specifically displaying mailpieces that are at risk and mailpieces past the service standard. The data is broken down by facility that were last scanned and where the containers with the mailpieces first entered the USPS network. This report is updated and posted daily on the Expedited Packaging Supplies Blue Page. The call to action is to locate delayed EPS orders and process them accordingly. Access URL for Report: <https://blue.usps.gov/marketing/newproducts-innovation/victory-packaging-eps-report.htm>
- The Business Customer Intelligence (BCI) Report has been available since May 2018, which the Expedited Packaging program has used to verify if customers are meeting revenue thresholds. Using this report, Postal Service representatives can quickly assess customers and their revenue trend. Appropriate decisions are made, especially if trends could result in the customer being ineligible to qualify for Specialized or Customized Packaging the next time they wish to reorder. This BCI report helps to investigate low-trending revenues. The call to action is to create a letter that will be sent to the appropriate USPS Sales Representative to notify customers when have not met the revenue thresholds and when EPS packaging is discontinued.
- Any customers that order over the maximum on USPS.com (Postal Store) is sent to USPS Operation Integration Specialist (OIS) to confirm that the customer plans to use the packaging for its intended use. See attached “Expedited Packaging Supplies Standard Packaging Standard Operating Procedures (SOP)” that was implemented on February 26, 2020. The call to action is confirmation from the OIS that the customer intends to use packaging for shipments.

**Plan of Action Summary:**

The following application and reports are currently being planned for implementation for Fiscal Year 2021:

- Develop an Expedited Packaging Supplies Report for Delivery Operations report that will indicate which Post Offices did not execute a Delivery scan event. This report helps to identify non-receipt of packaging and the potential increase of reorder due to non-receipt.
  - Target Implementation Date: End of Quarter 1 FY2021
  - Management Official Responsible for Implementation: Expedited Packaging Specialist
- Develop Expedited Packaging Supplies Universal Product Code (UPC) reporting of Expedited Packaging Supplies processed based on UPC barcode and customer’s unique Mailer ID in the



- mail processing environment. This report will assist in gathering usage data based on UPC barcode and customer.
- Target Implementation Date: End of Quarter 2 FY2021
  - Management Official Responsible for Implementation: Expedited Packaging Specialists
  - Establish new policy that a Mailer ID (MID) will be required for all Standard Packaging that exceeds the order quantity on USPS.com (Postal Store). Develop SOP and communicate new policy throughout Sales.
    - Target Implementation Date: End of Quarter 2 FY2021
    - Management Official Responsible for Implementation: Expedited Packaging Specialist and Product Performance Analyst
  - BCI Report Non-Compliance: Create a letter that will be sent to the appropriate USPS Sales Representative to have them notify customers when they have not met the revenue thresholds and when their EPS packaging will be discontinued.
    - Target Implementation Date: End of Quarter 1 FY2021
    - Management Official Responsible for Implementation: Expedited Packaging Specialists and Product Performance Analyst

**Recommendation #3:**  
 “We recommend the **Vice President, Product Innovation**, in coordination with the **Vice President, Mail Entry and Payment Technology**, evaluate and implement, as appropriate, available technology to scan all expedited mailpieces, to include non-Click-N-Ship and non-PC Postage pieces, to identify and recover postage due from improper usage of expedited packaging.”

**Disagreement:**  
 The Expedited Packaging Supplies Program has the following items already in place to identify and recover postage due from improper usage of Expedited Packaging:

- The Expedited Packaging Supplies Program lowered the Machineability Criteria for Expedited Packaging Supplies to 12" x 12" x 15" (previously was 17" x 17" x 27") this allows for better visibility for processing (Publication 22, Page 17). Refer to the Package Sorter Machine Chart below.

Package Sorter	# of Sorters	Minimum (H x W x L)	Maximum (H x W x L)
ADUS	36	0.1" x 3" x 3"	15" x 18" x 22"
APBS	220	0.1" x 3" x 3"	12" x 12" x 15"
APPS	74	0.1" x 3" x 3"	15" x 18" x 22"
SPSS (Pilot)	5	0.1" x 3" x 3"	10" x 14" x 18"
SPSS (Production)	35	0.1" x 3" x 3"	10" x 16" x 22"
HTPS	2	0.1" x 3" x 3"	10" x 16" x 22"
EPPS	1	0.1" x 3" x 3"	15" x 18" x 22"
USS (ACT Model)	10	0.75" x 6" x 6"	18" x 24" x 42"
USS (Honeywell Model)		0.75" x 6" x 6"	28" x 24" x 60"
HSUS (Angle Induction)	15	0.5" x 5" x 9"	28" x 30" x 42"
HSUS (Inline Induction)		0.5" x 5" x 9"	28" x 30" x 60"
PSM	50	0.25" x 3" x 6"	17" x 17" x 27"
Rapistan	5	0.25" x 4" x 4"	17" x 17" x 27"

- The Expedited Packaging Supplies Program has continuously improved products to provide visibility and has provided barcodes on all six sides of boxes. Although the Expedited Packaging Program provided visible barcodes to be scanned on machines, customers may place labels over barcodes preventing barcodes to be read.
- Currently, the Expedited Packaging Supplies Program receives monthly EPS Tracking by Barcode Report, assist to identify packaging based on the UPC barcode.

**Plan of Action Summary:**  
 The following report is currently being planned for implementation for Fiscal Year 2021:

- Develop Expedited Packaging Supplies Universal Product Code (UPC) reporting of Expedited Packaging Supplies being processed in the mailstream.

- Target Implementation Date: End of Quarter 2 FY2021
- Management Official Responsible for Implementation: Expedited Packaging Specialists
- Redistribute service talk to all Post Office locations nationwide to SSAs that they must scan the Universal Product Code (UPC) on all Expedited Packaging Supplies (EPS).
  - Target Implementation Date: Ongoing Quarter 1 and Quarter 3 Beginning FY2021
  - Management Official Responsible for Implementation: Expedited Packaging Specialist
- Developed SOPs for Revenue Assurance and Commercial Payment to track EPS throughout the network that are short paid and improperly used. See attached "Revenue Assurance Standard Packaging Standard Operating Procedures (SOP)".
  - Target Implementation Date: Quarter 1 FY2021
  - Management Official Responsible for Implementation: Expedited Packaging Specialist, Revenue Assurance Process Specialist, Manager Payment Programs, Postal Inspector Analytics/Cyber Group
- Implement Postage Validation at Retail System Software (RSS) sites to determine misuse of Expedited Packaging Supplies.
  - Target Implementation Date: Quarter 4 FY2021
  - Management Official Responsible for Implementation: Expedited Packaging Specialist, Revenue Assurance Process Specialist, Commercial Payment
- Partner with Revenue Assurance so that the 27 Field Revenue Assurance Specialist will assist with sampling referred leads for Expedited Packaging Supplies that are potentially short paid.
  - Target Implementation Date: Quarter 4 FY2021
  - Management Official Responsible for Implementation: Expedited Packaging Specialist, Revenue Assurance Process Specialist

**Recommendation #4:**

"We recommend the **Vice President, Product Innovation**, in coordination with the **Vice President, Information Technology**, enhance online expedited packaging supply ordering controls to prevent customers from circumventing order thresholds and to further discourage waste."

**Disagreement:**

- Mechanisms are already in place to evaluate and implement, as appropriate, to scan all expedited supplies to identify and recover postage due from improper usage of Expedited Packaging. The Automated Package Verification (APV) Program was launched in August of 2017. APV is designed for detecting short paid packages with domestic PC Postage®/Click-N-Ship®/Indicia labels.
- In June 2020, USPS merged the APV Program with Package Platform. This enhances the USPS revenue protection of domestic outbound packages paid through PC Postage® providers and Click-N-Ship® through inclusion of additional machine types and expanded scan capabilities. The APV Program can detect discrepancies in dimensions, duplicates, weight, zone, and packaging (Mail Class label other than Priority Mail and/or a zone and weight label on a Priority Mail Flat Rate Box).
- Please see attached additional documents regarding the Automated Package Verification Program:
  - APV Stand Up Talk
  - APV Program Description PowerPoint
- The NCMS Expedited Packaging Supplies Application for Specialized Packaging went live on August 22, 2020, it is linked to the Customer Data Mart (CDM) that enables the program to monitor the revenue contribution by customer.
- The Expedited Packaging Supplies Program has the following Standard Operating Procedures in place to enhance online Expedited Packaging Supply ordering controls to prevent customers from circumventing order thresholds:
  - Revenue Assurance Standard Packaging Standard Operating Procedures (SOP) – Available as of October 2020
  - Expedited Packaging Supplies for Standard Packaging Standard Operating Procedures (SOP) – Available as of December 2020

**Plan of Action Summary:**

The following application and reports are currently being planned for implementation for Fiscal Year 2021:

- The Expedited Packaging Supplies (EPS) Application enhances the ordering process of free Priority Mail (PM) and Priority Mail Express (PME) packaging requested by EPS Customers under the Specialized program and will do the same when available for the Customized program. Customers must qualify to receive Specialized packaging by a commitment to provide \$75K in USPS Expedited (Priority Mail Express or Priority Mail) annualized revenue; and similarly, to qualify to receive Customized packaging by a commitment to provide \$350K in annualized Expedited revenue. With the introduction of the EPS Application, the order process for Specialized is now automated, streamlining the flow of data directly from the Salesperson to the Expedited Packaging Supplies Team to the Supplier. The automation allows data to populate from internal systems and provides account details, which are needed to ensure threshold minimums and billing methods. All orders are approved and signed by the customer, as well as confirmed and approved by the EPS Program Lead. The Application provides additional reinforcements to ensure orders do not permit contractual breach by flagging accounts which have associated Negotiated Service Agreements (NSAs). Accounts that are flagged as having an NSA require additional approval by the Field Sales Strategy and Contracts to ensure that the NSA contract supports the use of USPS provided packaging. In the future, Customized packaging business case details will be entered into the Application as the EPS Program Lead works with the customer and Supply Management to confirm customized packaging and identify a Supplier. Once a business case or an order is placed into the application, it remains as a historical record. Therefore, data and reporting for the EPS team, Sales, Supply Management, and Leadership is available to make informed decisions. The data is retained, and reports are available based on the data, which flows across multiple USPS internal systems onto the external Suppliers for fulfillment. The data includes customer details, such as location(s), contact information, supplier specifics, and product details. Product details allow Leadership to have insight into customer activity, order frequency of specific products, and order requests fulfilled by Suppliers. This data can be used to determine where excess packaging is shipped and predict future unwanted waste. Overall, the EPS Application is a centralized ordering and reporting system with an improved oversight of the EPS Specialized and Customized Programs, allowing USPS to manage growth and revenue expectations more efficiently.
  - Target Implementation Date: Quarter 4 FY2021 for Customized Packaging
  - Management Official Responsible for Implementation: Expedited Packaging Specialist, Program Manager Information Technology
- Eliminate hardcopy PS Form 4004-SP, Specialized Packaging Order Form. USPS Sales Representatives will be required to only use the Expedited Packaging Supplies Application to request Specialized Orders.
  - Target Implementation Date: Quarter 1 FY2021
  - Management Official Responsible for Implementation: Expedited Packaging Specialist and Product Performance Analyst
- Eliminate hardcopy PS Form 4004-C, Customized Packaging Business Case. USPS Sales Representatives will be required to only use the Expedited Packaging Supplies Application to request Customized Orders.
  - Target Implementation Date: Quarter 1 FY2022
  - Management Official Responsible for Implementation: Expedited Packaging Specialist and Product Performance Analyst
- Update Publication 22, Expedited Packaging Supplies to include reference to the Expedited Packaging Supplies Application and its process and the elimination of PS Form 4004-SP, Specialized Packaging Order Form.
  - Target Implementation Date: Quarter 1 FY2021
  - Management Official Responsible for Implementation: Expedited Packaging Specialist and Product Performance Analyst

- Update Publication 22, Expedited Packaging Supplies to include reference to the Expedited Packaging Supplies Application and its process and the elimination of PS Form 4004 -C, Customized Packaging Business Case.
  - Target Implementation Date: Quarter 1 FY2022
  - Management Official Responsible for Implementation: Expedited Packaging Specialist and Product Performance Analyst
- Develop HERO required course for USPS Sales Representatives for the new Expedited Packaging Supplies Application
  - Target Implementation Date: Quarter 2 FY2022
  - Management Official Responsible for Implementation: Expedited Packaging Specialist, Product Performance Analyst and IT
- Develop SOP for Robot (BOT) orders that are based on IP address for shipments to customers that did not request supplies
  - Target Implementation Date: Quarter 1 FY2021
  - Management Official Responsible for Implementation: Expedited Packaging Specialist, Inspection Service and Postal Inspector Analytical Cyber Group

**Recommendation #5:**

“We recommend the **Vice President, Product Innovation**, in coordination with the **Vice President, Supply Management**, develop a mechanism to provide greater visibility over expedited packaging supply (EPS) inventories and order volumes for eBuyPlus post offices. Periodically distribute and review data reports from the standard packaging supplier’s information tool to evaluate the cost effectiveness of the EPS program.”

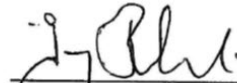
**Disagreement:**

- The Expedited Packaging Program continues to communicate with all involved stakeholders through the following activities to enhance ordering controls and provide greater visibility over inventories. The Expedited Packaging Program is involved in the following meetings:
  - Quarterly Supplier Performance Review with Victory Packaging
  - Routine Meetings with Victory Packaging
- A process has been developed to provide greater visibility over Expedited Packaging Supply inventories and order volumes for eBuyPlus Post Offices through Asset Planning. As of December 2012, Asset Planning developed Standard Operating Procedures to have Post Offices conduct cycle counts on a four-week schedule (28 days) and monitors the usage of Standard Packaging Supplies. See attached “Asset Planning’s Expedited Packaging Supplies (EPS) Audit Standard Operating Procedures (SOP)” that provides instructions for cycle counts of Expedited Packaging Supplies (EPS) at selected retail units. Cycle counting is required to support automatic replenishment of selected EPS inventory.
- Asset Planning uses the file “Cycle Count to Districts” (see attached) to send to the field when they observe cycle counts that are questionable. Asset Planning will send this file to the District Retail Manager (DRM), Consumer Service Program Analysts (CSPA), Retail Specialists, and each Post Office the week after their scheduled cycle count. The file also includes a template that Asset Planning uses to communicate to the DRM, an item list, the Cycle Count SOP, and the Cycle Count Schedule. Asset Planning reviews the following categories:
  - Multiple zero counts
  - No changes from previous month
  - Large counts
  - Multiple identical counts
- All auto replenished shipments for planned and non-planned offices are managed by Asset Planning. For eBuyPlus orders Asset Planning reviews the orders on a daily basis. Asset Planning has created the following documents:
  - Asset Planning - Expedited Packaging Supplies Replenishment Overview
  - Asset Planning - FAQs for Expedited Packaging Supplies Replenishment
  - Asset Planning - Expedited Packaging Supplies Cycle Count Items and Cycle Count Schedule

<ul style="list-style-type: none"> <li>○ Asset Planning - List of all EPS Items via eBuyPlus (Instructions)</li> <li>○ Asset Planning - Expedited Packaging Supplies Cycle Count for RSS Offices</li> </ul>
<p><b>Plan of Action Summary:</b></p> <ul style="list-style-type: none"> <li>● Review the following documents for updates and to improve the visibility of Expedited Packaging Supplies <ul style="list-style-type: none"> <li>○ Asset Planning - Expedited Packaging Supplies Replenishment Overview</li> <li>○ Asset Planning - FAQs for Expedited Packaging Supplies Replenishment</li> <li>○ Asset Planning - Expedited Packaging Supplies Cycle Count Items and Cycle Count Schedule</li> <li>○ Asset Planning - List of EPS Items to Order on eBuyPlus (Instructions)</li> <li>○ Asset Planning - Expedited Packaging Supplies Cycle Count for RSS Offices <ul style="list-style-type: none"> <li>▪ Target Implementation Date: Quarter 2 FY2021</li> <li>▪ Management Official Responsible for Implementation: Expedited Packaging Specialist, Asset Planning and Product Performance Analyst</li> </ul> </li> </ul> </li> <li>● Periodically distribute and review data reports from the Standard Packaging Supplies Information Tool <ul style="list-style-type: none"> <li>○ Target Implementation Date: Quarterly Reviews Beginning FY2021</li> <li>○ Management Official Responsible for Implementation: Expedited Packaging Specialists, Manager Business Solutions, Supply Management and Asset Planning</li> </ul> </li> </ul>
<p><b>Recommendation #6:</b>  The Vice President, Pricing and Costing, direct the Manager, Cost Attribution, to update the distribution keys for expedited packaging supply costs to reflect all expedited product Revenue, Pieces, and Weight (RPW) categories, and periodically review expedited product RPW categories to ensure distribution keys are up-to-date.</p>
<p><b>Agreement - Action Summary:</b>  Plan of Action: After an extensive review, Cost Attribution tightened its procedures to diminish the likelihood of a similar error occurring in the future. Specifically, it modified two protocols that should lead to a material improvement of the process. One, Cost Attribution updated the summary codes used in the Excel formulas to compute the relevant volumes. Two, Cost Attribution is now part of a cross-function technical group that meets periodically and communicates any changes to the mail categories on the RPW report. In the 2020 ACR, the distribution keys applied to expedited packaging and supply costs will correctly reflect all expedited RPW volume across the set of relevant product categories.</p> <p><b>Target Implementation Date:</b> December 2020</p> <p><b>Responsible Official:</b> Manager, Cost Attribution</p>



Sharon Owens  
Vice President, Pricing & Costing



Gary C. Reblin  
Vice President, Product Innovation

cc: Manager, Corporate Audit Response Management

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