

Competitive Products Billing Determinants: Priority Mail

AUDIT REPORT

Report Number 22-217-R23 | May 15, 2023



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Highlights

Background

The Postal Accountability and Enhancement Act of 2006 (PAEA) requires the U.S. Postal Service to produce an Annual Compliance Report (ACR) and provide the report to the Postal Regulatory Commission (PRC) within 90 days of the end of each fiscal year. The ACR analyzes cost, revenue, pricing, and quality of service for all products. In preparation for the ACR, Postal Service employees manually prepare billing determinant spreadsheets to calculate and report revenue, volume, and weight for every mail product. The competitive billing determinant volumes are indirect inputs used to ensure the Postal Service does not exceed its price-cap for market dominant products nor its price-floor for competitive products. We performed this audit as part of our mandate under PAEA to regularly audit Postal Service data collection systems and procedures used in collecting information to prepare the ACR.

What We Did

Our objective was to assess the competitive billing determinant process for fiscal year (FY) 2020 through FY 2022. Our review focused on the Priority Mail product billing determinants. Specifically, we recalculated the Priority Mail billing determinants for FY 2020 through FY 2022 using the Postal Service price list, Special Weights Reports, and the Domestic Negotiated Service Agreements Revenue, Pieces, and Weights Report.

What We Found

The Priority Mail billing determinants were generally accurate and complete. However, we identified some exceptions, primarily in the FY 2021 billing determinants related to calculation errors and the use of outdated data sources.

These exceptions occurred because manual processes are inherently susceptible to errors, and the Postal Service did not have updated standard procedures to guide the process. While the Postal Service developed billing determinant procedures in 2017, the procedures were not updated. The billing determinants process has evolved, and personnel changes within the billing determinants preparer group made it difficult to transfer organizational knowledge.

Recommendations

We recommended management (1) develop procedures to ensure Priority Mail billing determinants are produced using documented repeatable processes that include regular updates to ensure the accuracy of volume and revenue calculations and (2) consult with the Office of General Counsel to determine whether to file corrected FY 2021 billing determinants to the Postal Regulatory Commission.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 15, 2023

MEMORANDUM FOR: SHARON D. OWENS
PRICING AND COSTING VICE PRESIDENT

A handwritten signature in black ink, reading "Alan S. MacMullin", is centered below the memorandum header.

FROM: Alan S. MacMullin
Deputy Assistant Inspector General for Finance, Pricing, and Human
Capital

SUBJECT: Audit Report – Competitive Products Billing Determinants: Priority Mail
(Report Number 22-217-R23)

This report presents the results of our audit of U.S. Postal Service Products Billing Determinants.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact JeVon Holland, 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 audit of the Priority Mail Billing Determinants (Project Number 22-217). Our objective was to assess the competitive billing determinant processes for FY 2020 through FY 2022, specifically for Priority Mail. See [Appendix A](#) for additional information about this audit.

Background

The Postal Accountability and Enhancement Act of 2006 (PAEA) requires the U.S. Postal Service to produce an Annual Compliance Report (ACR) and provide the report to the Postal Regulatory Commission (PRC) within 90 days of the end of each fiscal year. The PAEA also requires the U.S. Postal Service Office of Inspector General (OIG) to regularly audit the data collection systems and procedures used in collecting information and preparing the ACR.

The ACR analyzes cost, revenue, pricing, and quality of service for all products. The Postal Service provides billing determinant spreadsheets to the PRC in support of the ACR. Billing Determinants are spreadsheets used to report volume, revenue, and weight for every Postal Service product in each mail class. Postal Service management manually prepares billing determinant spreadsheets quarterly and at the end of each fiscal year. Competitive billing determinant volumes are indirect inputs used to ensure the Postal Service does not set product prices below its price-floor.¹ Management also uses the

billing determinant calculations to identify trends and assist with decisions regarding price adjustments.

Priority Mail is one of the Postal Service's most popular products, as it includes tracking and delivery in one to three business days. Compared to other competitive products offered by the Postal Service, Priority Mail generates the most revenue and the third most volume, as shown in [Table 1](#) and [Table 2](#), respectively. Over the last five years, revenue has increased over 31 percent, and volume has increased over 10 percent for Priority Mail.

Finding #1: Priority Mail Billing Determinant Accuracy

The Priority Mail billing determinants were generally accurate and complete. However, we identified some exceptions. We recalculated Priority Mail billing determinants for FY 2020 through FY 2022 using Postal Service's price list, Special Weights Reports, and the Domestic Negotiated Service Agreements (NSA) Revenue, Pieces, and Weights Report. Using these documents, we calculated the volume and revenue for the six different product categories,² and then compared the calculations against Postal Service's billing determinant data. We identified exceptions in the FY 2020 and FY 2021 Priority Mail billing determinants related to calculation errors and the use of outdated data sources as shown in [Table 3](#).

Table 1. Competitive Mail Class Products Revenue (in Millions)

	2018	2019	2020	2021	2022
Priority Mail	\$9,103	\$9,462	\$11,529	\$13,212	\$11,958
Parcel Select Mail	\$6,408	\$6,801	\$8,690	\$9,169	\$9,256
First-Class Package Service	\$3,871	\$4,465	\$6,228	\$7,388	\$7,809
Special Services	\$883	\$898	\$983	\$1,078	\$1,300
Priority Mail Express	\$751	\$716	\$697	\$820	\$770
Retail Ground Mail	\$284	\$266	\$302	\$306	\$367
Parcel Return Service Mail	\$220	\$203	\$202	\$234	\$242

Source: Postal Service public Revenue, Pieces, and Weight Report for each fiscal year.

¹ Price control or limit on how low a price can be charged for a product.

² Retail, Commercial Base, Commercial Plus, Commercial Plus Cubic, Commercial Plus Priority Mail Open and Distribute (PMOD) Destination Delivery Unit, and Commercial Plus PMOD All Zones.

Table 2. Competitive Mail Class Product Volume (in Millions)

	2018	2019	2020	2021	2022
Priority Mail	1,074	1,085	1,262	1,394	1,184
Parcel Select Mail	2,997	2,910	3,500	3,463	3,466
First-Class Package Service	1,275	1,398	1,848	2,056	1,960
Special Services	82	78	81	71	71
Priority Mail Express	28	26	24	29	28
Retail Ground Mail	14	12	13	11	17
Parcel Return Service Mail	89	75	72	72	70

Source: Postal Service public Revenue, Pieces, and Weight Report for each fiscal year.

Table 3. Calculation Errors by Fiscal Year and Quarter

Period	Retail	Commercial Base	Commercial Plus	Commercial Plus Cubic	Commercial Plus PMOD Destination Delivery Unit	Commercial Plus PMOD All Zones
FY 2020						
Quarter 3		X				
FY 2021						
Quarter 1		X				
Quarter 2		X				
Quarter 3		X				
Annual	X	X	X	X	X	X

Source: The U.S. Postal Service Office of Inspector General (OIG) Analysis.

Specific exceptions included:

- Incorrect number of working days³ were used to calculate volume and revenue for the FY 2021 annual billing determinants for all product categories. For example, when a price change occurred, the preparer used 18 working days to calculate the volume before the temporary price change,⁴ when 14 working days should have been used.
- Outdated prices were used in revenue calculations for certain Commercial Base product categories.⁵ For example, in the FY 2021, Quarter 2, billing determinant, preparers used prices effective on January 26, 2020, to calculate revenue when the preparer should have used prices effective January 24, 2021.

- Incorrect data was used in volume distributions for one type of Commercial Base product category in FY 2021, Quarter 1.⁶
- An inaccurate summary report was used for NSA contract data. Specifically, for FY 2021 Quarter 1, the original NSA data was used when there was a revised summary report.

These exceptions occurred because manual processes are inherently susceptible to errors, and the Postal Service did not have updated standard procedures to guide the process. While the Postal Service developed billing determinant procedures in 2017, preparers stated the billing determinant process had since changed, and the procedures were not updated accordingly. In addition, preparers stated that personnel changes

³ Working days do not include Sundays or federal holidays.

⁴ A temporary price adjustment for key package products for anticipated peak-season package and shipping demand, which results in extra handling costs.

⁵ Outdated prices were used for Flat-Rate Premium Forwarding Service Half Trays and Flat-Rate Premium Forwarding Service Full Trays, which fall under the Commercial Base product category.

⁶ Incorrect volume was used for Flat-Rate Premium Forwarding Service Full Trays.

within the billing determinants preparer group made it difficult to transfer organizational knowledge to new preparers, making updated procedures even more important. As a result, the Postal Service reported a calculated revenue for Priority Mail that was understated by \$762,354 in FY 2021.⁷

Management stated they are currently updating the billing determinant preparation process and documenting the procedures. These controls should help standardize the billing determinant preparation process and reduce reporting errors. Adequate documentation is a vital component of an effective internal control system and provides a means to retain organizational information.

Recommendation #1

We recommend the **Vice President, Pricing and Costing**, develop procedures to ensure Priority Mail billing determinants are produced using documented, repeatable processes that include regular updates to ensure the accuracy of volume and revenue calculations.

Recommendation #2

We recommend the **Vice President, Pricing and Costing**, consult with the Office of General Counsel to determine whether to file corrected FY 2021 billing determinants to the Postal Regulatory Commission.

completed. Recommendation 1 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed. Regarding recommendation 2, management provided documentation to support consultation with the Postal Service's law department, which advised management not to resubmit FY 2021 billing determinant data to the Postal Regulatory Commission. Therefore, we consider recommendation 2 closed with the issuance of this report.

Management's Comments

Management agreed with the findings and recommendations. See [Appendix B](#) for management's comments in their entirety.

Regarding recommendation 1, management stated that the analyst updated the standard operating procedures for producing the Priority Mail billing determinants and will review them quarterly to ensure they remain relevant. The target implementation date is May 31, 2023.

Regarding recommendation 2, management stated the law department has been consulted on whether to file corrected billing determinants. The target implementation date is May 31, 2023.

Evaluation of Management's Comments

We consider management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are

⁷ The FY 2020 Quarter 3 error identified did not impact revenue.

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Appendix A: Additional Information

Scope and Methodology

The scope of this audit includes Priority Mail billing determinant calculations from FY 2020 through FY 2022.

To accomplish our objective, we:

- Identified data inputs and support files for Priority Mail billing determinants, including the Revenue, Pieces, and Weights, mailing category codes, and PRC publications.
- Reviewed and recalculated volume and revenue to assess the accuracy of the billing determinant data.
- Interviewed the Pricing and Costing group responsible for preparing the competitive billing determinants and assessed the Priority Mail billing determinant process.
- Evaluated policies and procedures established for the Priority Mail billing determinants.

We conducted this performance audit from November 2022 through May 2023 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. We discussed our observations and conclusions with management on April 17, 2023, and included their comments where appropriate.

We assessed the reliability of billing determinant data by testing completeness, reasonableness, and validity. Specifically, we compared the count of unique entries to the count of all entries to determine if there were duplicates, searched for blank entries, compared values from 2022 to the previous fiscal year, and checked if revenue was in whole cents and if pieces were in whole units. We determined the data was sufficiently reliable for the purposes of this report.

Prior Audit Coverage

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

Appendix B: Management's Comments

SHARON OWENS
VICE PRESIDENT, PRICING AND COSTING



April 28, 2023

JOHN CIHOTA
DIRECTOR, AUDIT OPERATIONS

**SUBJECT: Competitive Products Billing Determinants: Priority Mail
(Project Number 22-217-DRAFT)**

Thank you for providing the Postal Service with an opportunity to review and comment on the findings and recommendations contained in the draft audit report, U.S. Postal Service Products Billing Determinants.

Management agrees with all two findings.

Following are our comments on the two recommendations.

Recommendation #1: We recommend the Vice President, Pricing and Costing, develop procedures to ensure Priority Mail billing determinants are produced using documented, repeatable processes that include regular updates to ensure the accuracy of volume and revenue calculations.

Management Response/Action Plan:

Management agrees with this recommendation.

The analyst has updated the standard operating procedures for producing the Priority Mail billing determinants and will be reviewing them on a quarterly basis to ensure they remain relevant.

Target Implementation Date: 5/31/23

Responsible Official:

Director Domestic Package Pricing

Recommendation #2: We recommend the Vice President, Pricing and Costing, consult with the Office of General Counsel to determine whether to file corrected FY 2021 billing determinants to the Postal Regulatory Commission.

Management Response/Action Plan:

Management agrees with this recommendation.

The Law Department has been consulted.

Target Implementation Date: 5/31/23

Responsible Official:

Director Domestic Package Pricing

A handwritten signature in blue ink that reads "Sharon Owens".

Sharon D. Owens
Vice President, Pricing and Costing

cc: Corporate Audit & Response Management

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