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Highlights

Background

Accurate billing determinant calculations are critical to ensure the U.S. Postal Service's products cover their costs. Parcel Select was second to Priority Mail in revenue and was the top product by volume from fiscal year (FY) 2018 to FY 2022. The Postal Accountability and Enhancement Act of 2006 (PAEA) requires the 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 support of the ACR, Postal Service management manually prepares billing determinant spreadsheets quarterly and at the end of each fiscal year. The Postal Service uses a contractor to provide quarterly and year-end volume data supporting the billing determinants.

What We Did

Our objective was to assess the competitive Parcel Select billing determinant process for FYs 2021 and 2022. We recalculated the Parcel Select billing determinants for FY 2021 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 Parcel Select billing determinant calculations and process were generally accurate and complete. However, we identified a calculation error and an opportunity to improve the Parcel Select billing determinant standard operating procedures (SOPs). Specifically, the Postal Service miscalculated nonmachinable parcel volume and underreported Parcel Select revenue in Quarter 1 of FY 2022. Also, while management had SOPs in place, the procedures did not include key internal controls. Preparers stated they completed procedures to verify the accuracy of contractor data; however, we found management did not document these procedures to ensure they were applied consistently. In addition, management did not include PRC refiling criteria in the SOPs.

Recommendation

We recommended management update the Parcel Select billing determinant SOPs on a regular basis to ensure billing determinants are produced using documented, complete, and repeatable processes to validate contractor volume and revenue data and document criteria for when to refile billing determinants.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 18, 2023

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

A handwritten signature in black ink, reading "Lazerick C. Poland", is centered below the memorandum header.

FROM: Lazerick C. Poland
Acting Deputy Assistant Inspector General for Finance,
Pricing, and Human Capital

SUBJECT: Audit Report –Parcel Select Billing Determinants Process and
Procedures (Report Number 23-111-R23)

This report presents the results of our audit of Parcel Select Billing Determinants Process and Procedures.

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

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

This report has not yet been reviewed for release under FOIA or the Privacy Act. Distribution should be limited to those within the Postal Service with a need to know.

Introduction/Objective

This report presents the results of our self-initiated audit of the Parcel Select billing determinants (Project Number 23-111). Our objective was to assess the competitive billing determinant process for Parcel Select during fiscal year (FY) 2021 and FY 2022. 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. In support of the ACR, the Postal Service provides billing determinant spreadsheets to the PRC. Postal Service management prepares billing determinant spreadsheets quarterly and at the end of each fiscal year. Year-end billing determinant spreadsheets supersede quarterly billing determinant spreadsheets with adjustments and corrections. The spreadsheets capture the

billing determinants that report volume, revenue, and weight for every Postal Service product in each mail class. The billing determinant spreadsheet preparation process is manual with a higher inherent risk of error. The Postal Service uses contractor services to provide quarterly and year-end volume data in support of the billing determinants. Competitive billing determinant volumes are indirect inputs used to ensure the Postal Service does not set product prices below its price-floor. Management also uses the billing determinant calculations to identify trends and assist with decisions regarding price adjustments.

Parcel Select® is the registered trademark name for the Postal Service's economical ground delivery service for packages entered in bulk, including those entered at destination facilities. Parcel Select provides competitive pricing and is generally used by large- and medium-sized parcel shippers. Parcel Select was second to Priority Mail in revenue and was the highest volume competitive product from FY 2018 to FY 2022, as shown in [Table 1](#) and [Table 2](#), respectively.

On July 9, 2023, the Postal Service launched a new product, USPS Ground Advantage™, which ships packages up to 70 lbs. in two-to-five business days. USPS Retail Ground, Parcel Select Ground, and First-Class Package Service were incorporated into USPS Ground Advantage™.

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

	2018	2019	2020	2021	2022
Priority Mail	\$ 9,103	\$ 9,462	\$ 11,529	\$ 1,3212	\$ 11,958
Parcel Select Mail	\$ 6,408	\$ 6,801	\$ 8,690	\$ 9,169	\$ 9,256
First-Class Package Service	\$ 3,871	\$4,465	\$ 4,465	\$6,228	\$7,388
Special Services	\$883	\$ 898	\$ 983	\$ 1078	\$ 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.

Table 2. Competitive Mail Class Products Volume (in millions)

	2018	2019	2020	2021	2022
Parcel Select Mail	2,997	2,910	3,500	3,463	3,466
Priority Mail	1,074	1,085	1,262	1,394	1,184
First-Class Package Service	1,274	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.

Finding: Billing Determinant Process

The Postal Service Parcel Select billing determinant calculations and process were generally accurate and complete. However, we identified a calculation error and an opportunity to improve the Parcel Select billing determinant standard operating procedures (SOPs).

Calculation Process

We recalculated Parcel Select billing determinants for FY 2021 and FY 2022 using Postal Service source inputs¹ and compared the results to Postal Service’s billing determinant calculations. We found, in Quarter 1 of FY 2022, Postal Service management miscalculated nonmachinable parcel volume and underreported Parcel Select revenue by \$562,265.² Postal Service policy³ requires spreadsheet information be reported accurately.

While the Postal Service developed a billing determinant SOP in 2016, preparers stated personnel changes within the pricing team made it difficult to transfer organizational knowledge to new preparers. Manual processes are more prone to error, and since billing determinants support Postal Service pricing and product strategy, inaccurate calculations can undermine the Postal Service’s ability to reach its goal of financial stability.

Starting in Quarter 2 of FY 2022, the contractor provided Postal Service management with separate machinable and nonmachinable parcel volume data, which changed the preparer’s calculation process. While management was unaware of the revenue difference before our audit, the process change reduced the risk of the error occurring again. Therefore, we are not making a recommendation on this issue.

We found

in Quarter 1 of Fiscal Year 2022

Postal Service management miscalculated

nonmachinable parcel volume and

underreported Parcel

Select revenue by \$562,265

Documented Procedures

We identified an opportunity to improve the Parcel Select billing determinant SOP. Although the Postal Service had SOPs in place, the procedures did not document key internal controls to validate contractor data. Specifically, the preparers compared calculated billing determinant revenue to net Revenue, Pieces and Weights (RPW) revenue;⁴ however, we found Postal Service management did not document this procedure.

In addition, management initiated a new validation procedure comparing the

¹ Billing determinant source inputs included: Volume Summary Reports, Dimensional Reports, Revenue, Pieces and Weights (RPW) extract files, Domestic Negotiated Service Agreements (NSA) RPW Reports, and Postal Service’s price lists.
² Postal Service applies a surcharge to nonmachinable parcels.
³ Handbook AS-805, *Information Security*, September 2022, section 9-8.5.
⁴ When calculated billing determinant revenue exceeds or is below RPW revenue expectations, preparers follow up with the contractor to determine cause.

Dimensional⁵ Report volume to the Volume Summary Report because the contractor provided transposed volume amounts. This transposition resulted in a billing determinant error that was identified by management after filing with the PRC, then corrected and refiled. Management did not update the SOP to include this new validation procedure.

Finally, management stated they consult with the Postal Service Law Department to determine when refiling with PRC is necessary. However, management did not include specific refiling criteria in the SOP.

These procedures were not included because the SOP was not regularly reviewed and updated to lessen the risk of errors or that procedures are not applied consistently. Internal control guidance⁶ requires management periodically review control activities, such as SOPs, to determine their continued relevance and update them when necessary.

Documentation is a necessary part of an effective internal control system and a method to retain organizational knowledge, especially when employee turnover occurs. Having comprehensive SOPs are critical since calculating billing determinants is largely a manual process. Manual processes are more prone to error, and as the Postal Service continues to develop more product lines, such as Ground Advantage, errors could increase.

Recommendation

We recommend the **Vice President, Pricing and Costing**, update the Parcel Select billing determinant standard operating procedures on a regular basis to ensure billing determinants are produced using documented, complete, and repeatable processes to validate contractor volume and revenue data and document criteria for when to refile billing determinants.

Management's Comments

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

Regarding recommendation 1, management stated pricing analysts will review the SOPs each quarter when billing determinants are prepared, to ensure the procedures are accurate. Also, management stated the pricing analyst will review and update the SOPs quarterly and will notate when no updates are made. The target implementation date is October 31, 2023.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendation in the report.

The recommendation requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. The recommendation 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.

⁵ Dimensional is a pricing structure that takes into account a package's box dimensions as well as the package weight.

⁶ Committee of Sponsoring Organizations, *Principle 12*, dated 2015.

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Appendix A: Additional Information

Scope and Methodology

The scope of this audit includes Parcel Select billing determinant processes and calculations for FY 2021 and FY 2022.

To accomplish our objective, we:

- Identified data inputs and support files for Parcel Select billing determinants, including the RPW, 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 Parcel Select billing determinants.
- Evaluated processes for the Parcel Select billing determinants.
- Reviewed the contractor Statement of Work and contract documentation related to the Parcel Select billing determinants process.

We conducted this performance audit from May 2023 through September 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 August 23, 2023, and included their comments where appropriate.

We assessed the reliability of billing determinant data by testing completeness, reasonableness, and accuracy. Specifically, we searched for blank entries, compared values from FY 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 were sufficiently reliable for the purposes of this report.

In planning and conducting the audit, we obtained an understanding of the billing determinant internal control structure to help determine the nature, timing, and extent of our audit procedures. We reviewed the management controls for overseeing the program and mitigating associated risks. Additionally, we assessed the internal control components and underlying principles, and we determined the following control activities components were significant to our audit objective: control activities, information and communication, and monitoring.

We developed audit work to ensure that we assessed these controls. Based on the work performed, we identified internal control deficiencies that were significant within the context of our objectives. Our recommendation, if implemented, should correct the weaknesses we identified.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Competitive Products Billing Determinants: Priority Mail</i>	To assess the competitive billing determinant process for FY 2020 through FY 2022.	22-217-R23	05/15/23	\$762,354

Appendix B: Management's Comments



9/11/23

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: Parcel Select Billing Determinants Process and Procedures (23-111-DRAFT)

Thank you for providing the Postal Service with an opportunity to review and comment on the findings and recommendations contained in the draft report – *Parcel Select Billing Determinants Process and Procedures*.

Management agrees with the findings in the report.

Following is our comment on the one recommendation.

Recommendation 1:

We recommend the Vice President, Pricing and Costing, update the Parcel Select billing determinant standard operating procedures on a regular basis to ensure billing determinants are produced using documented, complete, and repeatable processes to validate contractor volume and revenue data and document criteria for when to refile billing determinants.

Management Response/Action Plan:

Management agrees with this recommendation.

The pricing analyst will review the Standard Operating Procedures each quarter when they prepare the Billing Determinants to ensure they are accurate and reflect the most recent inputs. If updates are necessary, the SOP will be updated quarterly; otherwise, the analyst will note that the SOP was reviewed and no updates were necessary.

Target Implementation Date: 10/31/2023

Responsible Official: Director, Domestic Package Pricing

E-SIGNED by Sharon D Owens
on 2023-09-13 09:50:54 CDT

Sharon D. Owens
Vice President, Pricing & Costing

cc: *Corporate Audit & Response Management*

OFFICE OF INSPECTOR GENERAL

UNITED STATES



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