

U.S. Postal Service Ground Advantage Billing Determinant Calculation Process

AUDIT REPORT

Report Number 24-101-R24 | August 20, 2024



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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 (FY). 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. Billing determinants report the volume by rate, weight, and calculated revenue and compares the result to the reported Revenue Pieces and Weight volume. In its annual report to the PRC, the Postal Service is required to use only accepted analytical principles.

On July 9, 2023, the Postal Service introduced USPS Ground Advantage, which ships packages in two-to-five business days across the continental United States. USPS Ground Advantage provides businesses and the public with a ground shipping option using Postal Services' last-mile delivery route system.

What We Did

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 annual reports to the Commission. Our objective was to assess the billing determinant calculation processes for Ground Advantage. We recalculated the Ground Advantage billing determinants for Quarter 4 of FY 2023 and Quarters 1 and 2 of FY 2024.

What We Found

The Postal Service Ground Advantage billing determinant calculation process was generally effective; however, the USPS Ground Advantage standard operating procedures did not include all calculation procedures. Specifically, we found the USPS Ground Advantage standard operating procedures did not include COVID-19 test kit volume procedures used for calculating the billing determinants.

Recommendations and Management's Comments

During fieldwork, management implemented corrective action, and accordingly, U.S. Postal Service Office of Inspector General did not make any recommendations. Management agreed with the finding. See [Appendix B](#) for management's comments in their entirety.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

August 20, 2024

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

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

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

SUBJECT: Audit Report – U.S. Postal Service Ground Advantage Billing
Determinant Calculation Process (Report Number 24-101-R24)

This report presents the results of our audit of U.S. Postal Service Ground Advantage Billing Determinant Calculation Process.

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

Attachment

cc: Postmaster General
Corporate Audit Response Management
Secretary of the Board of Governors

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the of U.S. Postal Service Ground Advantage Billing Determinants Calculation Process. (Project Number 24-101). Our objective was to assess the billing determinant calculation processes for Ground Advantage. 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)¹ and report to the Postal Regulatory Commission (PRC) within 90 days of the end of each fiscal year. Additionally, the U.S. Postal Service Office of Inspector General (OIG) is required to regularly audit the data collection systems and procedures used in collecting information and preparing the ACR.

In support of the ACR, the Postal Service provides billing determinant spreadsheets to the PRC. Postal Service management prepares billing determinant spreadsheets quarterly and a reconciliation calculation at the end of each fiscal year.² Billing determinants report the volume by rate, weight, and calculated revenue (using volume by rate multiplied by the price) and then compares the

“On July 9, 2023, the Postal Service introduced USPS Ground Advantage, which ships packages in two-to-five business days across the continental United States.”

result to the reported Revenue Pieces and Weight (RPW) volume. Billing determinants are used for business decision-making and regulatory reporting purposes. The billing determinants help the Postal Service identify trends and make informed business decisions. The PRC requires the billing determinants for periodic reporting, and for substantiating price change calculations.

On July 9, 2023, the Postal Service introduced USPS Ground Advantage, which ships packages in two-to-five business days

across the continental United States. USPS Ground Advantage provides businesses and the public with a ground shipping option using Postal Services' last-mile delivery route system. It is a key element of the Postal Service's shipping service growth strategy as part of the 10-year Delivering for America plan. With the product's launch, the Postal Service retired three previously offered products.³ During the audit scope period, the Postal Service distributed COVID-19 test kits using Ground Advantage. The revenue and volume of Ground Advantage increased from Quarter 4 of FY 2023 to Quarter 2 of FY 2024, by 33.5 percent and 23.8 percent, respectively, as shown in [Table 1](#).

¹ The ACR analyzes costs, revenues, rates, and quality of service to demonstrate all products complied with all applicable requirements.

² USPS Ground Advantage service was available for only one quarter in FY 2023 (launched in Quarter 4); therefore, the OIG did not reperform a FY 2023 year-end reconciliation calculation.

³ USPS Retail Ground, USPS Parcel Select Ground, and USPS First-Class Package Service.

Table 1. USPS Ground Advantage Revenue and Volume (in thousands)⁴

	FY23, Quarter 4	FY24, Quarter 1	FY24, Quarter 2
Revenue	\$2,312,741	\$3,328,010	\$3,087,148
Volume	447,827	613,742	554,242

Source: Revenue, Pieces & Weight Reports.

In its annual reports to the PRC, the Postal Service is required by the PRC to use only accepted analytical principles. For FY 2023, there were no approved accepted analytical principles for reporting USPS Ground Advantage costs. Therefore, Postal Service management developed an interim methodology for ACR reporting. On May 10, 2024, the Postal Service filed a petition requesting the PRC initiate a rulemaking

proceeding to consider a proposal to change the analytical principles relating to the Postal Service’s periodic reports. The proposal established a cost model for purposes of disaggregating costs for the USPS Ground Advantage product. As of the date of this report, the PRC had not responded to management’s petition.

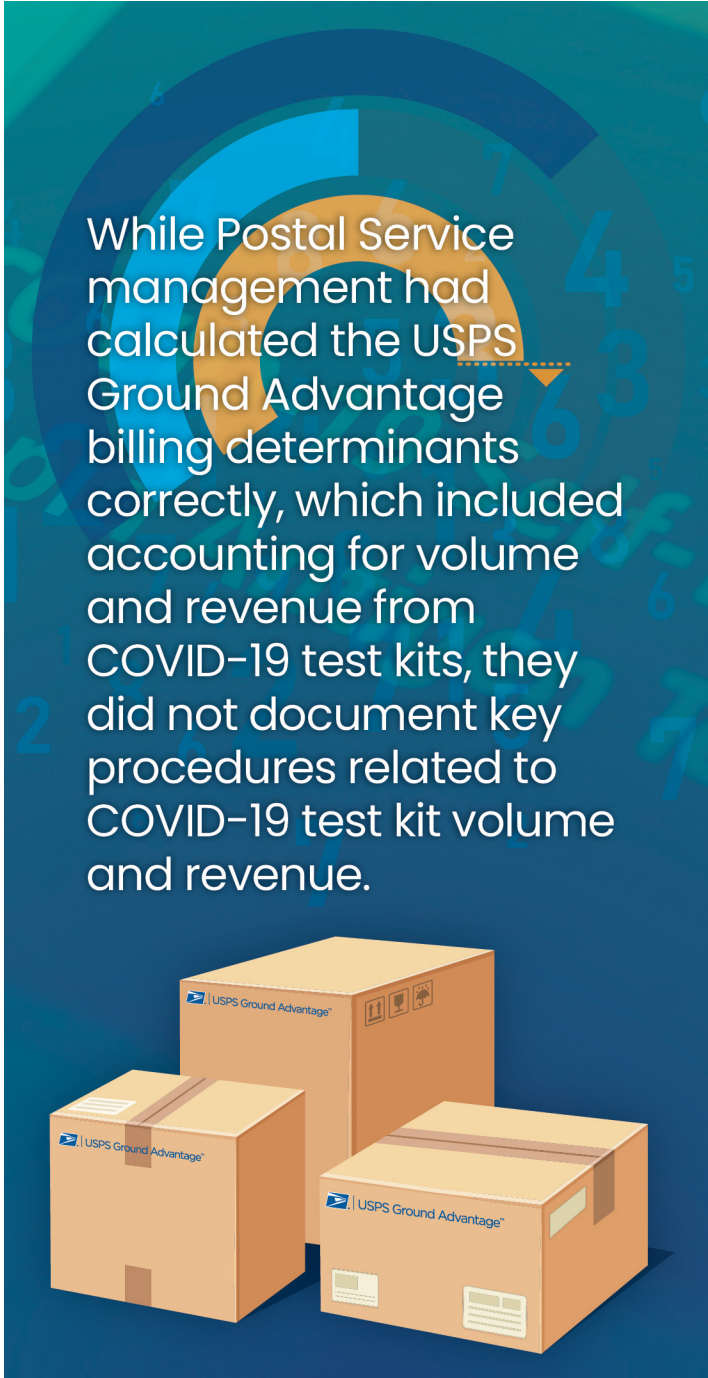
4 Includes COVID-19 test kit revenue and volume.

Finding: Billing Determinant Procedures

The USPS Ground Advantage billing determinant calculation process was generally effective. However, we identified an opportunity to improve the Ground Advantage billing determinant standard operating procedures (SOP). While Postal Service management had calculated the USPS Ground Advantage billing determinants correctly, which included accounting for volume and revenue from COVID-19 test kits, they did not document key procedures related to COVID-19 test kit volume and revenue.

We recalculated the USPS Ground Advantage billing determinants for Quarter 4 of FY 2023 and Quarters 1 and 2 of FY 2024, using Postal Service source inputs.⁵ We compared the results to Postal Service's calculations and reviewed process SOPs. We found no material differences in the billing determinant calculations; however, the USPS Ground Advantage SOPs did not include all calculation procedures. Specifically, the procedures excluded guidance for COVID-19 test kit volume and revenue. This occurred because the preparer inadvertently omitted the necessary procedures to accurately calculate the billing determinants. As a result, on June 20, 2024, management updated the USPS Ground Advantage SOPs to include the COVID-19 test kit volume and revenue process. Accordingly, the OIG will not make a recommendation in this report.

Documentation is necessary and required to demonstrate the design, implementation, and operating effectiveness of an entity's internal control system. The value of including the COVID-19 test kit volume and revenue processes provides new preparers insight into the background and the procedures (manual and automated) for billing determinant volume and revenue processing.



While Postal Service management had calculated the USPS Ground Advantage billing determinants correctly, which included accounting for volume and revenue from COVID-19 test kits, they did not document key procedures related to COVID-19 test kit volume and revenue.



⁵ Billing determinant source inputs included: Volume Summary Reports, RPW extract files, Domestic Negotiated Service Agreements RPW Reports, and Postal Service's price lists.

Postal Service Response

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

OIG Evaluation

Although the report does not contain any recommendations, the OIG considers management's comments responsive.

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Appendix A: Additional Information

Scope and Methodology

The scope of this audit includes USPS Ground Advantage billing determinants and regulatory reporting process for Quarter 4 of FY 2023 and Quarters 1 and 2 of FY 2024.

To accomplish our objective, we:

- Obtained the following documentation:
 - USPS Ground Advantage billing determinant calculations and all source documents used to calculate billing determinants for Quarter 4 of FY 2023 and Quarters 1 and 2 of FY 2024.
 - The SOPs and methodology used for USPS Ground Advantage costs and any other policies, procedures, or data necessary to calculate billing determinants.
- Reviewed and recalculated volume and revenue to assess the accuracy of the billing determinant data.
- Interviewed Pricing and Costing personnel to discuss questions or issues identified during recalculation of the USPS Ground Advantage billing determinants.
- Gained an understanding of the process for reporting disaggregated costs for the USPS Ground Advantage product.

We conducted this performance audit from May 2024 through August 2024 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. Management opted not to have an exit conference.

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 control activities component was significant to our audit objective.

We developed audit work to ensure that we assessed these controls. Based on the work performed, we did not identify internal control deficiencies related to control activities that were significant within the context of our objectives.

We assessed the reliability of billing determinant data by tracing volume and revenue totals to independent source documents. We determined the data was sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Parcel Select Billing Determinants Process and Procedures</i>	To assess the competitive billing determinant process for Parcel Select during FYs 2021 and 2022.	23-111-R23	9/18/23	\$0
<i>Competitive Products Billing Determinants: Priority Mail</i>	To assess the competitive billing determinant process for FY 2020 through FY 2022.	22-217-R23	5/15/23	\$0

Appendix B: Management's Comments



July 25, 2024

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: U.S. Postal Service Ground Advantage Billing
Determinant Calculation Process (24-101-DRAFT)

Thank you for providing the Postal Service with an opportunity to review and
comment on the findings contained in the draft audit report, *U.S. Postal Service
Ground Advantage Billing Determinant Calculation Process*.

Management agrees with all findings.

E-SIGNED by SHARON.D OWENS
on 2024-07-25 13:29:46 EDT

Sharon Owens
Vice President, Pricing & Costing

cc: *Corporate Audit & Response Management*

OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE



Contact us via our [Hotline](#) and [FOIA](#) forms. Follow us on social networks. Stay informed.

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