



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Market Dominant Billing Determinants: Special Services

Audit Report

Report Number
CP-AR-16-004

February 4, 2016



1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
15.0	21.0	19.6	21.0	18.4	11.0	19.4	17.0	15.0	12.0	10.0	9.0	8.0	7.0	6.0	5.0	4.0	3.0	2.0	1.0	0.0	0.0
45.2	52.7	63.1	50.7	48.0	45.9	43.3	37.0	35.5	22.9	18.3	27.5	30.2	28.0	26.0	24.0	22.0	20.0	18.0	16.0	14.0	12.0



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Highlights

The Postal Accountability and Enhancement Act requires the Postal Service to produce an Annual Compliance Report within 90 days of the end of each fiscal year. Billing determinants are filed in support of this report and used to ensure that price adjustments do not exceed price caps for each market dominant class of mail.

Background:

U.S. Postal Service employees manually prepare billing determinant spreadsheets to report volume and revenue for every price in the five market dominant classes of mail: First-Class Mail, Periodicals, Standard Mail, Package Services, and Special Services.

Special Services supplement or enhance mail services, such as Post Office (PO) Boxes, for a fee. The Postal Service obtains data for Special Services billing determinant spreadsheets from sources such as its published price list, the *Revenue, Pieces, and Weight Report*, and the Web Box Activity Tracking System. This is the third in a series of five audits on billing determinants. The first audit reviewed First-Class Mail and the second reviewed Periodicals.

The Postal Accountability and Enhancement Act requires the Postal Service to produce an *Annual Compliance Report* within 90 days of the end of each fiscal year. The report analyzes cost, revenue, pricing, and quality of service for all products. The Postal Service files billing determinant spreadsheets to support this report and ensure that price adjustments do not exceed price caps for each market dominant class of mail. The manual preparation and complexity of the billing determinant spreadsheets used to prepare fiscal year FY 2013 and FY 2014 Special Services billing determinants create a risk of data entry errors.

Our objective was to assess the accuracy and completeness of data used to prepare fiscal year FY 2013 and FY 2014 Special Services billing determinant spreadsheets.

What The OIG Found:

We did not identify issues with data completeness but found inaccuracies the Postal Service could prevent by improving procedures used to prepare the Special Services billing determinant spreadsheets. Specifically, the FY 2013 spreadsheets had errors because employees used outdated source data and in FYs 2013 and 2014 employees did not correctly calculate PO Box billing determinants. Further, the Postal Service did not establish adequate controls over the Special Services billing determinant calculation process.

As a result of our previous billing determinant audits, the Postal Service is documenting repeatable processes for preparing billing determinant spreadsheets. But, there were no internal reviews of Special Services billing determinant spreadsheets prior to FY 2015 and errors existed in the FY 2013 and 2014 spreadsheets.

Management uses the spreadsheets to help make decisions regarding price adjustment filings. Although these errors did not impact compliance with price cap requirements, future billing determinant calculation errors might.



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What The OIG Recommended:

We recommended the vice president, pricing and costing, submit corrected Special Services billing determinant spreadsheets for FYs 2013 and 2014 with the Postal Regulatory Commission; ensure billing determinant spreadsheets include the most current data; and complete ongoing internal efforts to ensure all Special Services billing determinant spreadsheets are produced using documented and repeatable processes that include an in-depth internal review process.

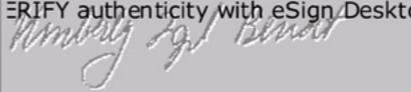
Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

February 4, 2016

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

E-Signed by Kimberly Benoit
VERIFY authenticity with eSign Desktop


FROM: Kimberly F. Benoit
Deputy Assistant Inspector General
for Technology Investment and Cost

SUBJECT: Audit Report – Market Dominant Billing Determinants:
Special Services (Report Number CP-AR-16-004)

This report presents the results of our audit of the Market Dominant Billing Determinants: Special Services (Project Number 15TG038CP000).

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

Attachment

cc: Corporate Audit and Response Management

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Findings

Opportunities exist to improve the accuracy of billing determinant calculations for PO Box and Caller Service.

Introduction

This report presents the results of our self-initiated audit of Market Dominant Billing Determinants: Special Services (Project Number 15TG038CP000). Our objective was to assess the accuracy and completeness of data used to prepare fiscal year FY 2013 and FY 2014 Special Services billing determinant spreadsheets. See [Appendix A](#) for additional information about this audit.

U.S. Postal Service employees manually produce billing determinant spreadsheets to report volume and calculated revenue¹ for every Postal Service price in the five market dominant classes of mail: First-Class Mail, Periodicals, Standard Mail, Special Services, and Package Services. Special Services primarily consist of services and transactions that supplement or enhance mail services, such as certified mail, return receipts, insurance services, money orders, and Post Office (PO) Boxes.

The Postal Service and Postal Regulatory Commission (PRC) use billing determinant spreadsheets to ensure price adjustments do not exceed the price cap² for each market dominant class of mail. The Postal Service also uses billing determinants in the *Annual Compliance Report (ACR)*.

Summary

While we did not find any issues with the completeness of billing determinant preparation procedures for Special Services, there are opportunities to improve their accuracy. Specifically, we identified errors resulting from incorrect billing determinant calculations and the use of outdated source data. Further, the Postal Service did not establish adequate controls over the Special Services billing determinant calculation process.

The Postal Service began documenting repeatable processes for preparing billing determinant spreadsheets in FY 2015. Although these procedures are being developed, there were no internal reviews of Special Services billing determinant spreadsheets prior to FY 2015 and errors existed in the FY 2013 and 2014 spreadsheets. The billing determinant spreadsheets help management make decisions regarding price adjustment filings. Although these errors did not impact compliance with price cap requirements, future billing determinant calculation errors might.

Post Office Box and Caller Service Calculations

Opportunities exist to improve the accuracy of billing determinant calculations for PO box and Caller Service. PO box and Caller Service billing determinants were not accurately calculated for FYs 2013 and 2014, resulting in billing determinant spreadsheet inaccuracies with an absolute value of \$62.8 million³ (\$5.4⁴ million in FY 2013, and \$57.4⁵ million in FY 2014). Pricing economists failed to correctly calculate volume and prices, resulting in errors in revenue calculations. Billing determinant spreadsheet calculations included inaccurate volume totals determined from Web Box Activity Tracking System (WebBATS) source data; incorrect prices from Notice 123⁶; and other calculation errors. There were transposed volume totals from WebBATS and incorrect prices on the calculation spreadsheets, which resulted in inaccurate revenue totals.

¹ Calculated revenue equals volume multiplied by price, as opposed to actual revenue, which is revenue received by the Postal Service.

² The inflation-based limit on Postal Service prices as described in the Postal Accountability and Enhancement Act (PAEA).

³ The amount cited is the absolute value of our calculations, which is the sum of the figures regardless of whether they are positive or negative. The net value is a revenue overstatement of \$48,081,097.

⁴ The PO box amount was \$5,141,622 and the caller service was \$256,699 in FY 2013.

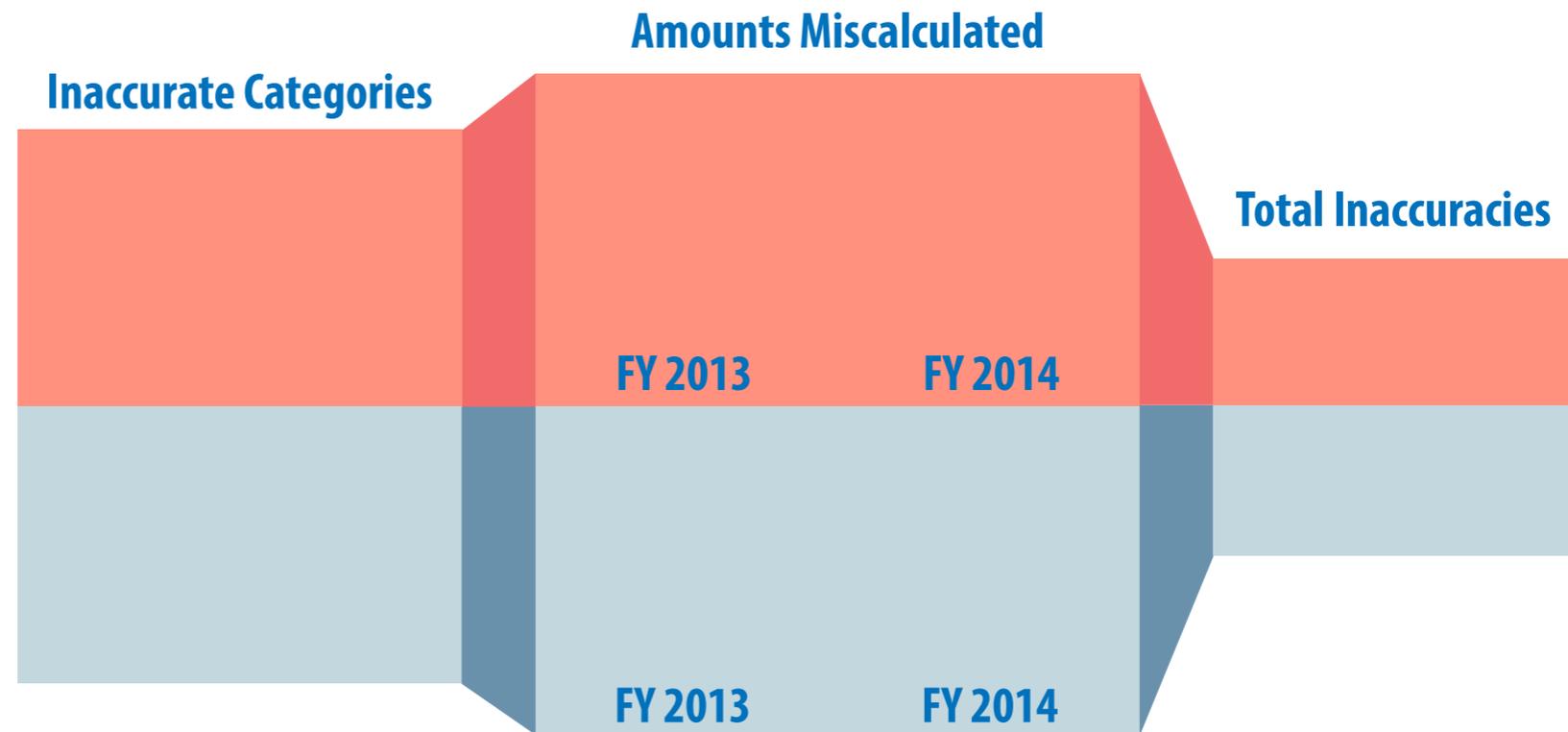
⁵ The PO box amount was \$31,959,319 and the caller service was \$25,453,972 in FY 2014.

⁶ Notice 123 is the Postal Service published *Price List*.

During FY 2014, Quarter (Q) 2, the Postal Service changed the prices for some Special Services classifications. This caused billing determinant spreadsheet calculations that included prices based on a ratio of how long each price was in effect in FY 2014, Q2, to the number of delivery days in that quarter.

The lack of documented, repeatable processes contributed to these issues. Such processes could ensure a consistent methodology for calculating volume and revenue totals. Furthermore, Pricing employees used a manual process to determine volume totals, which led to various transposition, input, and calculation errors. Lastly, the Pricing group did not have a quality review process to ensure billing determinant spreadsheets were accurate and complete. Because the Postal Service uses these spreadsheets to determine price changes, errors increase the risk of management decisions that lead to noncompliance with price cap requirements.

Billing Determinant Inaccuracies for FYs 2013 and 2014



Outdated Source Data

Using outdated source data resulted in inaccurate billing determinant spreadsheets for Special Services. The Pricing group used *Revenue, Pieces, and Weight (RPW) Report* data to help produce billing determinant spreadsheets. In December 2013, the Postal Service filed a Cost and Revenue Analysis (CRA) and billing determinants for FY 2013 and, in February 2014, the Postal Service revised the RPW data used for the FY 2013 Special Services billing determinant spreadsheets and filed a CRA using the revised data. But, management chose not to revise the FY 2013 billing determinant spreadsheets to reflect the revised RPW data because it was updated after the ACR was issued and 10-K⁷ was filed. Updating the spreadsheets at that time would have resulted in information that did not match the 10-K.

⁷ A comprehensive summary of a company's performance. Typically, the 10-K contains much more detail than the annual report, such as company history, organizational structure, equity, holdings, earnings per share, and subsidiaries. The Postal Service files similar reports with the PRC.

We acknowledge the Pricing group did not update the data in order to be consistent. But, using outdated RPW data resulted in a \$38.2⁸ million reporting error for Special Services billing determinant spreadsheets for FY 2013. Because these spreadsheets are used to help management make decisions regarding price adjustments, which must comply with price cap regulations, it is critical that the spreadsheets contain the most current information available.

Billing Determinant Controls

Because of PRC filing deadlines, the Pricing group has 10 calendar days from when it obtains source data to compile billing determinant spreadsheets. The current manual process allows the preparer of billing determinant spreadsheets to visually verify that the correct source data is used, rather than inspecting computer code for accuracy. The current process — which requires insight and involves tight deadlines — may be difficult to automate. But, as business processes change, opportunities for automation may increase and should be pursued. Prior to FY 2015, the Postal Service did not have documented, repeatable processes for preparing billing determinant spreadsheets and did not conduct internal reviews of billing determinant spreadsheets before publishing them.

In FY 2015 the Pricing group began instituting internal controls that require a review of billing determinant spreadsheet accuracy. During the current audit, the Pricing group began documenting the billing determinant calculation process. These controls may help reduce future reporting errors and might have prevented errors found in this audit.

Improved controls for billing determinant spreadsheets could be an internal system of written procedures and practices to assess the accuracy and completeness of the volume, price, and revenue data. The Postal Service could also incorporate additional Microsoft Excel tools to identify data changes and adopt a review process for billing determinant spreadsheets.

⁸ The amount cited is the absolute value of our calculations, which is the sum of the figures regardless of whether they are positive or negative. However, in this case the absolute value is equal to the net value, which is the total amount over reported.

Recommendations

We recommend management submit corrected Special Services billing determinant spreadsheets for FYs 2013 and 2014 to the Postal Regulatory Commission; and complete ongoing internal efforts to ensure all Special Services billing determinant spreadsheets are produced using documented and repeatable processes that include an internal review process.

We recommend the vice president, Pricing and Costing:

1. Submit corrected Special Services billing determinant spreadsheets for fiscal years 2013 and 2014 to the Postal Regulatory Commission.
2. Complete ongoing internal efforts to ensure that all Special Services billing determinant spreadsheets are produced using documented and repeatable processes that include an internal review process.

Management's Comments

Management agreed there are opportunities to strengthen the billing determinants process. Management believes that the net value of \$86.2 million is a more accurate depiction of the revenue impact than the OIG's \$101 million absolute value method calculation. Management also stated that while the audit was underway they were working on completing the documentation of the Special Services billing determinants process and establishing a quality review process.

Management disagreed with recommendation 1 to file corrected versions of the Special Services billing determinants for FYs 2013 and 2014. Management believes that because in 2014, 1.3 million PO Boxes moved to competitive from market dominant. This change, management believes, will reduce the historical value of the data. Furthermore, management believes they do not need to refile the FY 2013 billing determinants because they matched the 10-K filed with the PRC.

Management agreed with recommendation 2 and stated they have already implemented an internal review process and will continue to improve the processes used to produce the billing determinations and the documentation of those processes. Management expects to complete implementation of the recommendation by the end of FY 2016.

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

Evaluation of Management's Comments

The OIG generally considers management's comments responsive to recommendation 2 in the report. While we understand the Postal Service's perspective on net value, we believe absolute value is a more appropriate measurement. Net value understates the total financial impact of each exception on the billing determinant calculations.

Management disagreed with recommendation 1 to file corrected Special Services billing determinants for FY 2013 and 2014. While the Postal Service reclassified a large number of PO Boxes from market dominant to competitive, the billing determinants relative to PO Boxes for FY 2013 and 2014 were inaccurate totaling \$62.8 million as filed with the PRC; and the FY 2013 Special Service billing determinants are also inaccurate due to the use of outdated source data.

Because stakeholders use billing determinants and the data is publicly available on the PRC website, the Postal Service should resubmit the corrected information or confirm with the PRC that resubmission is required. We view the disagreement on recommendation 1 as unresolved, but we do not plan to pursue it through the formal audit resolution process. We agree with management's corrective actions in response to recommendation 2. We will close recommendations 1 and 2 with the issuance of this report.

Appendices

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Appendix A: Additional Information

Background

Postal Service employees manually produce billing determinant spreadsheets to report volume and revenue for every Postal Service price in each class of market dominant mail. Billing determinant spreadsheets are filed in support of the Postal Service's ACR. The ACR analyzes cost, revenue, pricing, and quality of service for all products. One type of billing determinant — Special Services — comprised 4.1 percent of the Postal Service's \$51.355 billion in market dominant mail and services revenue in FY 2013, and 4 percent of its \$51.590 billion in market dominant mail and services revenue in FY 2014.

Special Services in the CRA are divided into two categories:

- **Special Services (formal designation):** These are services that supplement or enhance mail or mail services and are available for a fee. The following 10 products are classified as market dominant Special Services:
 - Ancillary Services, International Ancillary Services
 - Address Management Services
 - Caller Service
 - Change-of-Address Credit Card Authentication
 - Confirm
 - International Reply Coupon
 - International Business Reply Mail
 - Postal Money Orders
 - PO Box Service
 - Customized Postage
- **Ancillary Services (informal designation):** This is a broader designation of Special Services that require a fee in addition to postage, such as Certified Mail, Collect on Delivery, USPS Tracking, Insured Mail, and Registered Mail.

The Postal Service uses billing determinant spreadsheets to ensure that price adjustments do not exceed the price cap for each market dominant class of mail and to employ economic forecasting to produce price indices. Calculation errors on these spreadsheets could cause proposed prices to exceed price caps and cause the Postal Service to violate the PAEA. At the same time, without accurate billing determinant spreadsheets, there is a risk that Postal Service management could make business decisions based on inaccurate information.

Objective, Scope, and Methodology

Our objective was to assess the completeness and accuracy of the data used in billing determinants for Special Services. To accomplish our objective we:

- Identified and reviewed support files for and data inputs to Special Services billing determinants, including the RPW, mailing category codes, and PRC publications.
- Interviewed Postal Service subject matter experts to evaluate data handling and processing procedures.
- Analyzed price adjustment calculations to determine whether identified errors impacted a percentage change in Special Services fee amounts.
- Reviewed and recalculated volume revenue and prices to identify errors and ensure completeness.

The scope of this project was the FY 2013 and FY 2014 Special Services billing determinants. It included a review of the data and processing used to calculate billing determinant information for domestic market dominant Special Services.

We conducted this performance audit from August 2015 through February 2016, 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 January 5, 2016, and included their comments where appropriate.

We did not assess the reliability of any computer-generated data for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Market Dominant Billing Determinants: Periodicals</i>	CP-AR-15-004	9/14/2015	None
Report Results: Management agreed there are opportunities to strengthen the billing determinants process and believes that a \$2.2 million net value is a more accurate depiction of the revenue impact than the OIG's \$7.6 million absolute value. Management also stated that while the audit was underway, they completed documentation of the billing determinants process for Periodicals and the activities are ongoing with a targeted implementation date of December 31, 2015.			
<i>Market Dominant Billing Determinants: First-Class Mail</i>	CP-AR-15-003	6/11/2015	None
Report Results: Management agreed there are opportunities to strengthen the billing determinants process and believes that a \$39.9 net value is a more accurate depiction of the revenue impact than the OIG's \$156.8 million absolute value. Management also stated they have begun documenting the process, including establishing quality reviews, which were scheduled to be completed by September 30, 2015.			

Appendix B: Management's Comments



1/28/2016

Lori Lau Dillard
Director, Audit Operations

SUBJECT: Market Dominant Billing Determinants: Special Services (Report Number CP-AR-16-DRAFT)

Management agrees that there are opportunities to strengthen the billing determinants process and appreciates the thorough review by the USPS Office of Inspector General (OIG). Although management understands the "absolute value" method used by the OIG to calculate the value of the potential differences in the billing determinants revenue of \$101 million, management believes that the net value of \$86.2 million is a more accurate depiction of the revenue impact from the anomalies identified by the OIG. Management would also like to point out that we are working on completing the documentation of our Special Services processes for billing determinants and have established a quality review process. These activities are ongoing and will be completed for Periodicals by the end Fiscal Year 2016.

Recommendation 1:

Submit corrected Special Services billing determinant spreadsheets for fiscal years 2013 and 2014 to the Postal Regulatory Commission.

Management Response:

Management disagrees with the need to file corrected versions of the Special Services Billing Determinants for fiscal Years 2013 and 2014. In 2014 a 1.3 million PO Boxes moved from Market Dominant (covered by the Market Dominant Special Services Billing Determinants that are subject to this audit) to Competitive. As a result the historical value of the data is greatly reduced as comparing Fiscal Year 2014 data to Fiscal Year 2015 data is like comparing apples to oranges. Additionally, with respect to the FY 2013 Billing Determinants management believes it is appropriate for the Special Services Billing Determinants to match the 10-K which was finalized and filed before the changes were made to the RPW extract file and the CRA.

Recommendation 2:

Complete ongoing internal efforts to ensure that all Special Services billing determinant spreadsheets are produced using documented and repeatable processes that include an internal review process.

Management Response:

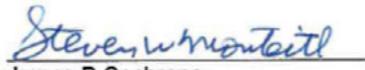
Management concurs with this finding. The Postal Service has already implemented an internal review process. The Special Services Billing Determinants are continually improved with respect to both the processes used to produce them and the documentation of those processes.

Target Implementation Date:

This will be an ongoing process with a goal of having documentation for all derivations by the end of Fiscal Year 2016.

Responsible Management Official:

Manager, Pricing


for James P Cochrane
Executive Vice President, Chief Marketing and Sales Officer

cc: Manager, Corporate Audit Response Management



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