



# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

### Market Dominant Billing Determinants: Standard Mail

### Audit Report

Report Number  
CP-AR-16-007

July 11, 2016





# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

## Highlights

***The Postal Service uses billing determinants to ensure price adjustments do not exceed the price cap for each market dominant class of mail.***

### Background

The U.S. Postal Service prepares billing determinant spreadsheets to report revenue, volume, and weight for the five market dominant classes of mail: Standard Mail, First-Class Mail, Periodicals, Package Services, and Special Services.

Mailers use Standard Mail to send small parcels and printed matter such as flyers, circulars, advertisements, newsletters, bulletins, and catalogs. The Postal Service obtains data for Standard Mail billing determinant spreadsheets from data sources that include revenue, pieces, weight, and shape.

The Postal Accountability and Enhancement Act of 2006 requires the Postal Service to produce an *Annual Compliance Report* (ACR) 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 the ACR. Management also uses billing determinant spreadsheets to help make decisions regarding price adjustments and to ensure these adjustments do not exceed price caps for each market dominant class of mail.

Our objective was to assess the procedures used to prepare fiscal years (FYs) 2014 and 2015 Standard Mail billing determinant spreadsheets and the completeness and accuracy of the data.

### What The OIG Found

Opportunities exist to improve the accuracy and completeness of Standard Mail billing determinants. Specifically, FYs 2014 and 2015 spreadsheets contained incorrect calculations of Intelligent Mail barcode incentives, handling fees, and detached address labels. In FY 2014, Picture Permit mail was incorrectly omitted from the billing determinant spreadsheets.

Although these errors did not impact compliance with price cap requirements, future billing determinant calculation errors might.

The errors existed because the Postal Service used manual processes to create the spreadsheets and controls over the Standard Mail billing determinant practices were inadequate. The manual preparation and complexity of the Standard Mail billing determinant spreadsheets create a risk of data entry errors.

The Postal Service refiled FY 2015 Standard Mail billing determinants to correct an error in Move Update fee calculations. The Postal Service also began enhancing internal controls over billing determinant spreadsheets by establishing an informal review and documenting the process for preparing them. The process document was in draft form at the time of our audit; however, the document could be improved by including a standard template, version control, and higher level internal review process.



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### What The OIG Recommended

We recommended management consult with the Postal Regulatory Commission to determine whether the FY 2014 Standard Mail billing determinant spreadsheets should be refiled due to the identified errors. Also, we recommended management explore the cost-benefit of fully automating the process or further leveraging Microsoft Excel tools to prepare billing determinant spreadsheets. Lastly, we recommended management complete ongoing efforts to validate that all Standard Mail billing determinant spreadsheets are produced using documented and repeatable processes to minimize errors and include a higher level internal review.

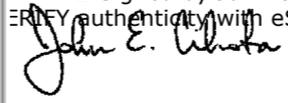
# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

July 11, 2016

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

E-Signed by John Cihota  
VERIFY authenticity with eSign Desktop  


**FROM:** John E. Cihota  
Deputy Assistant Inspector General  
for Finance, Pricing, and Investments

**SUBJECT:** Audit Report – Market Dominant Billing Determinants:  
Standard Mail (Report Number CP-AR-16-007)

This report presents the results of our audit of the Market Dominant Billing Determinants: Standard Mail (Project Number 16TG006CP000).

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, Pricing, and Investments, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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# Findings

***Standard Mail billing determinant calculations and procedures could be more accurate and complete. Errors existed due to manual processes and inadequate internal controls.***

## Introduction

This report presents the results of our self-initiated audit of the Market Dominant Billing Determinants: Standard Mail (Project Number 16TG006CP000). Our objective was to assess the procedures used to prepare fiscal years (FY) 2014 and 2015 Standard Mail billing determinant spreadsheets and the completeness and accuracy of the data. See [Appendix A](#) for additional information about this audit.

U.S. Postal Service employees manually produce billing determinant spreadsheets to report revenue, volume, and weight for every Postal Service price in the five market dominant classes of mail: Standard Mail, First-Class Mail, Periodicals, Special Services, and Package Services. Mailers use Standard Mail to send small parcels and printed matter such as flyers, circulars, advertising, newsletters, bulletins, and catalogs.

The Postal Service and Postal Regulatory Commission (PRC) use billing determinant spreadsheets to ensure price adjustments do not exceed the price cap<sup>1</sup> for each market dominant class of mail. The Postal Service also uses billing determinants in the *Annual Compliance Report (ACR)*.<sup>2</sup>

Standard Mail billing determinants comprised 35 percent of the Postal Service's \$49.5 billion in revenue from market dominant products and services in FY 2014, and 36 percent of its \$49.7 billion in revenue from market dominant products and services in FY 2015.

## Summary

Standard Mail billing determinant calculations and procedures could be more accurate and complete. Specifically, FY 2014 and 2015 billing determinant spreadsheets contained incorrect calculations of Intelligent Mail barcode (IMb) incentives,<sup>3</sup> handling fees, and detached address labels (DAL).<sup>4</sup> Additionally, in FY 2014, Picture Permit mail<sup>5</sup> was incorrectly omitted from the spreadsheets. These errors existed due to manual processes and inadequate controls over the Standard Mail billing determinant process.

As a result of our previous billing determinant audits, in FY 2015, the Postal Service began drafting a process document for Standard Mail billing determinants. Although this process was in place in FY 2015, errors existed in both FY 2014 and 2015 spreadsheets. These errors did not impact compliance with price cap requirements, but future billing determinant calculation errors might.

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1 The inflation-based limit on Postal Service prices as described in the Postal Accountability and Enhancement Act of 2006 (PAEA).

2 The ACR presents an analysis of costs, revenue, pricing, and quality of service for all products.

3 IMb is a Postal Service barcode used to sort and track letters and flats. Mailers receive an incentive for each mailpiece that has a full service IMb.

4 Mailers may address and print postage indicia on a DAL instead of printing addresses and postage on the items mailed with the DAL.

5 Mailers may customize the Permit Imprint Indicia with their organization logo, brand image, or trademark.

## Billing Determinant Accuracy and Completeness

Standard Mail billing determinant calculations and procedures could be more accurate and complete. Revenue errors totaled an estimated \$48,829,713<sup>6</sup> in the FY 2014 and 2015 spreadsheets. Specifically, in FY 2014 Standard Mail billing determinant spreadsheets, IMb incentives were deducted from total revenue twice, resulting in \$48,809,604 of underestimated revenue. Also in FY 2014, we identified an additional \$19,948 in revenue errors from omitted Picture Permit revenue and manual entry errors in handling fee calculations. In the FY 2015 billing determinant spreadsheets, we identified \$161 in revenue errors due to manual entry errors in IMb incentives and DAL calculations.

**Table 1. Standard Mail Billing Determinant Errors**

Category	FY 2014	FY 2015	Total
IMb Incentive	\$48,809,604 <sup>7</sup>	\$12	\$48,809,616
Handling Fees	62	-	62
Picture Permit	19,886	-	19,886
DALs	-	149	149
<b>Total Errors</b>	<b>\$48,829,552</b>	<b>\$161</b>	<b>\$48,829,713</b>

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

In addition to the errors noted in Table 1, the Postal Service identified and corrected a FY 2015 IMb incentive calculation error of \$58,077,831 before filing FY 2015 Standard Mail billing determinants. The Postal Service also refiled FY 2015 Standard Mail billing determinants on March 25, 2016<sup>8</sup> to correct a \$75,778 revenue error in Move Update fees.<sup>9</sup> The revision did not address the inaccurate IMb and DAL calculations included in Table 1.

The Postal Service uses billing determinant spreadsheets to comply with price change requirements. Manual processes and insufficient documented procedures contributed to the errors noted above. Although these errors did not impact compliance with price cap requirements in these instances, future errors might cause management to make decisions that lead to noncompliance.

### Billing Determinant Manual Processes

To prepare billing determinant spreadsheets, Postal Service employees manually sorted and filtered source data and visually verified that the correct data was imported into the spreadsheets. Next, they updated the spreadsheet calculations and labels where necessary. This manual process resulted in mislabeled spreadsheets, calculation errors, and omission of the Picture Permit mail category.

The manual process can be time consuming and may not allow sufficient time for a quality review process. Once all the data is collected the pricing economist has about 10 days to complete the billing determinants before they must be submitted to the

6 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 of the errors is (\$48,789,917).

7 This error represents 0.28 percent of total Standard Mail revenue in FY 2014.

8 The Postal Service made this change during our audit but before we communicated our findings to it.

9 Mailers who claim presorted or automation prices for Standard Mail must demonstrate that they have updated their mailing list addresses within 95 days before the mailing date; otherwise, they are charged a move update fee.

PRC.<sup>10</sup> To the extent possible, automating the billing determinants may help to reduce manual entry errors, allow time for internal reviews, and aid in timely filings. The Postal Service could also use additional Microsoft Excel tools to identify data changes and adopt a higher level review process for billing determinant spreadsheets.

### **Billing Determinant Documented Procedures**

Documentation is a necessary part of an effective internal control system and best practices. As recommended in the prior billing determinant audits, the Postal Service began strengthening internal controls by developing a process document<sup>11</sup> and informally reviewing billing determinants before submitting them to the PRC. While these initiatives helped reduce the magnitude of errors in FY 2015, the process could be improved.

For example, the process document:

- Did not demonstrate a repeatable process.
- Was outdated based on procedures communicated to the audit team. For example, the process document states that quarter 1 through 4 billing determinants were summed to develop the end of year billing determinants. However, in FY 2015, the pricing economist stated that he recreated the end of year billing determinants.
- Did not include a standard template or version control.
- Did not include a higher level review before submission to the PRC.

Improved internal controls for billing determinant spreadsheets should include clearly written procedures and higher level review to assess the accuracy and completeness of the volume, price, and revenue data.

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<sup>10</sup> According to Title 39, Code of Federal Regulations Section 3050.25, enacted July 1, 2003, the Postal Service has 40 days after the end of a quarter to submit billing determinants to the PRC. About 30 of the 40 days are spent obtaining source data.

<sup>11</sup> As of March 10, 2016, the process document was in draft form.

# Recommendations

We recommend the vice president, Pricing and Costing:

1. Consult with the Postal Regulatory Commission to determine whether the fiscal year 2014 Standard Mail billing determinants should be refiled due to the identified errors.
2. Explore the cost-benefit of fully automating the process or further leveraging Microsoft Excel tools to prepare billing determinant spreadsheets.
3. Complete ongoing efforts to validate that all Standard Mail billing determinant spreadsheets are produced using documented and repeatable processes to minimize errors and include a higher level internal review.

## Management's Comments

Management disagreed with recommendation 1 and agreed with recommendations 2 and 3. Management also agreed with the other impact identified.

Management disagreed with recommendation 1 and stated the identified errors were immaterial and did not impact financial reporting or compliance with price cap requirements. Management noted the report did not adequately highlight the progress made in improving the accuracy of the billing determinants prior to the audit.

Management agreed with recommendation 2 and will explore ways to automate all or parts of the billing determinants, to include conducting a cost benefit analysis to determine if the proposed solutions have a return on investment. Management will conduct these analyses by March 31, 2017.

Management agreed with recommendation 3 and will further enhance their documentation of the development of Standard Mail billing determinants, to include having repeatable, documented processes and a higher level review. Management will implement these changes by March 31, 2017.

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

## Evaluation of Management's Comments

OIG considers management's comments partially responsive to the recommendations in the report.

Management disagreed with recommendation 1 to consult with the PRC to determine whether the FY 2014 Standard Mail billing determinants should be refiled. Although the errors identified did not have an impact on compliance with price cap requirements in this instance, the expectation is that reports submitted to the regulator contain accurate information. As the PRC has not established a formal materiality threshold for the Postal Service to use, when inaccurate information is found the Postal Service should, at a minimum, consult with the regulator on the impact of the inaccuracies and determine next steps.

Management indicated the report does not adequately outline the progress made in improving the accuracy of the billing determinants. The dollar value of the errors decreased from FY 2014 to FY 2015, as shown in [Table 1](#). We also noted the Postal Service identified and corrected a \$58 million calculation error before filing the FY 2015 Standard Mail billing determinants.

However, we also identified additional errors in both fiscal years and noted the Postal Service refiled its FY 2015 Standard Mail billing determinants with the PRC due to errors.

We do not plan to pursue the disagreement through the formal audit resolution process and consider recommendation 1 closed, not implemented with the issuance of the report.

The corrective actions for recommendations 2 and 3 should resolve the issues identified in the report. These recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations 2 and 3 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.

# Appendices

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## Appendix A: Additional Information

### Background

Postal Service employees manually produce billing determinant spreadsheets to report revenue, volume, and weight 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 — Standard Mail — comprised 35 percent of the Postal Service's \$49.5 billion in market dominant mail and services revenue in FY 2014, and 36 percent of its \$49.7 billion in market dominant mail and services revenue in FY 2015.

Mailers use Standard Mail to send small parcels and printed matter such as flyers, circulars, advertising, newsletters, bulletins, and catalogs. Lower non-profit prices are available for Standard Mail, but require specific authorization. All Standard Mail prices are bulk prices. Each mailing must meet a minimum quantity of 200 pieces or 50 pounds of mail. There is no single piece Standard Mail postage.

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, which violates 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 procedures used to prepare Standard Mail billing determinant spreadsheets, as well as the completeness and accuracy of FYs 2014 and 2015 Standard Mail billing determinants. To accomplish our objective we:

- Identified and reviewed Standard Mail billing determinant source data, including the Revenue, Pieces and Weight report, Move Update files, and Shape Indicia report.
- Interviewed Postal Service subject matter experts to evaluate data handling and processing procedures.
- Reviewed and recalculated revenue, volume, and weight to identify errors and assured completeness.
- Reviewed price cap calculations to ensure identified errors did not impact the percentage change in rate for Standard Mail.
- Coordinated with the PRC on audit results.

The scope of this project was the FYs 2014 and 2015 Standard Mail billing determinants. It included a review of the data and processing used to calculate billing determinant information for domestic market dominant Standard Mail.

We conducted this performance audit from January through July 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 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 June 14, 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 (in millions)
<i>Market Dominant Billing Determinants: Special Services</i>	<a href="#">CP-AR-16-004</a>	2/4/2016	None

**Report Results:** We found the Special Services billing determinant spreadsheets contained inaccuracies totaling \$101 million that the Postal Service could have prevented by improving procedures for preparing the spreadsheets. Management partially agreed with our recommendations. 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. However, management disagreed with the recommendation to refile corrected billing determinants with the PRC. 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.

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Market Dominant Billing Determinants: Periodicals</i>	<a href="#">CP-AR-15-004</a>	9/14/2015	None

**Report Results:** We found the Periodicals billing determinant spreadsheets contained inaccuracies totaling \$7.6 million that the Postal Service could have prevented by improving procedures used to prepare the spreadsheets. Management partially agreed with our recommendations. 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. Also, management agreed to disclose the methodology used to calculate editorial discounts and the reason this calculation methodology differed from the rest of the billing determinant spreadsheets. However, management disagreed with the recommendations to refile corrected billing determinants with the PRC and to ensure source data is labeled correctly. Management also stated that while the audit was underway, they completed documentation of the billing determinants process for Periodicals.

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Market Dominant Billing Determinants: First-Class Mail</i>	<a href="#">CP-AR-15-003</a>	6/11/2015	None

**Report Results:** We found the First-Class Mail billing determinant spreadsheets contained inaccuracies totaling \$156.8 million that the Postal Service could have prevented by improving procedures used to prepare the spreadsheets. Management partially agreed with our recommendations. 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. However, management disagreed with the recommendation to refile the FY 2013 billing determinants.

## Appendix B: Management's Comments

SHARON D. OWENS  
VICE PRESIDENT, PRICING AND COSTING



June 29, 2016

SHERRY FULLWOOD  
(A) DIRECTOR, AUDIT OPERATIONS

SUBJECT: Market Dominant Billing Determinants – Standard Mail

The Postal Service appreciates the effort made by the U.S. Postal Service Office of the Inspector General (OIG) on the audit of Market Dominant Billing Determinants: Standard Mail (Draft Audit Report Number CP-AR-16 DRAFT) as well as their offer to allow a written response to their findings and recommendations. Postal Service management agrees with two of the recommendations as outlined in the audit report but disagrees with one recommendation. Management agrees with the need for accuracy in developing and reporting their billing determinants and will look for ways to better document and improve the billing determinants processes.

#### **Recommendation 1**

Consult with the Postal Regulatory Commission to determine whether the fiscal year 2014 Standard Mail billing determinates should be refiled due to the identified errors.

#### **Management Response:**

Management disagrees with this recommendation. For fiscal year 2014, the identified error of \$48.8 million within the Standard Mail Billing Determinates is immaterial when compared to total Standard Mail revenue of \$17.5 billion. The error represents less than three tenths of one percent of total Standard Mail Revenue. In addition, this would not impact financial reporting and as the report states, this error did not have an impact on price cap requirements. Furthermore, significant progress has been made in producing highly accurate Standard Mail billing determinates. As the report states, the total error identified in FY15 was \$161 dollars. The report does not adequately outline the progress management has made in improving the accuracy of the billing determinants prior to the audit.

#### **Recommendation 2**

Explore the cost-benefit of fully automating the process or further leveraging Microsoft Excel tools to prepare billing determinant spreadsheets.

#### **Management Response:**

Management agrees with this recommendation and will explore ways to automate all or parts of the development of billing determinants and conduct a cost benefit analysis to determine if proposed solutions have a return on investment.

#### **Target Implementation Date:**

Management will explore ways to automate parts or all of the billing determinants process by the end of Quarter 2, fiscal year 2017.

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**Responsible Management Official:**

Manager, Pricing

**Recommendation 3**

Complete ongoing efforts to validate that all Standard Mail billing determinant spreadsheets are produced using documented and repeatable processes to minimize errors and include a higher level internal review.

**Management Response:**

Management agrees with this recommendation and will further enhance our documentation of the development of the Standard Mail billing determinates so that we have a documented and repeatable process with documented higher level review.

In summary, the Postal Service agrees that opportunities exist to improve the quality of billing determinants data but the Postal Service has already made significant progress in addressing this. Management does not disagree with the monetary impact as outlined in the audit report.

**Target Implementation Date:**

Management will further enhance and finalize documentation of the Standard Mail billing determinants process by the end of Quarter 2, fiscal year 2017.

**Responsible Management Official:**

Manager, Pricing

  
Sharon Owens

cc: Manager, Corporate Audit and Response Management



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