



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

**Domestic Negotiated Service
Agreements**

Audit Report

April 29, 2013

Report Number MS-AR-13-007



HIGHLIGHTS

BACKGROUND:

The U.S. Postal Service is authorized to enter into negotiated service agreements (NSAs) -- customized contractual agreements between the Postal Service and specific mailers that provide customers special rebates, discounts, or pricing flexibility in return for increased mail volume and revenue growth.

The Postal Service is required to file documentation with the Postal Regulatory Commission showing that a prospective agreement will improve the Postal Service's net financial position or mail processing functions and will not cause undue discrimination to the marketplace. In addition, market dominant NSAs cannot cause unreasonable harm to the market. While the Postal Service is able to verify volume and revenue increases associated with NSAs, an inherent challenge in measuring the success of an NSA is determining whether an increase is the direct result of the agreement or would have occurred, without the agreement.

There were 53 competitive NSAs and one market dominant NSA in effect for fiscal year 2012. In addition, as of March 26, 2013, the Postal Regulatory Commission approved 40 competitive NSAs for the fiscal year.

Our objective was to evaluate the process for managing domestic NSAs and determine whether they resulted in mail volume and revenue increases.

WHAT THE OIG FOUND:

The domestic NSAs we reviewed generally resulted in mail volume and revenue increases; however, we could not determine whether the increases were the direct result of incentives created by the agreements. In addition, the data used to calculate rebates, discounts, and mail volume growth were not always accurate. Further, the data reported to the Postal Regulatory Commission did not always agree with data the Postal Service used to calculate discounts and rebates. We identified \$1.2 million in incorrect and questionable customer rebates and quarterly price adjustments. Lastly, the Postal Service does not have specific criteria governing retention of NSA data. We also noted another matter related to the statutory requirement that NSAs cannot cause unreasonable harm to the marketplace.

WHAT THE OIG RECOMMENDED:

We recommended the Postal Service develop and implement standardized procedures for managing NSAs and establish data retention schedules and a central repository.

[Link to review the entire report](#)



April 29, 2013

MEMORANDUM FOR: JOSEPH CORBETT
CHIEF FINANCIAL OFFICER AND EXECUTIVE VICE
PRESIDENT

WILLIAM C. RUCKER III
VICE PRESIDENT, SALES

A rectangular box containing a handwritten signature in cursive that reads "Darrell E. Benjamin, Jr." with a black circular mark at the end of the signature.

FROM: Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Revenue and Performance

SUBJECT: Audit Report – Domestic Negotiated Service
Agreements (Report Number MS-AR-13-007)

This report presents the results of our audit of the U.S. Postal Service's Domestic Negotiated Service Agreements (Project Number 12WG006EN000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Janet Sorensen, director, Sales and Marketing, or me at 703-248-2100.

Attachments

cc: Nagisa M. Manabe
Jeffrey C. Williamson
Dennis R. Nicoski
Steven R. Phelps
Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction	1
Conclusion	3
Data Discrepancies	3
Discount and Rebate Errors	4
Postal Regulatory Commission Reporting	5
Negotiated Service Agreements Data Retention and Central Repository	5
Other Matters	6
Unreasonable Harm.....	6
Recommendations	7
Management’s Comments	7
Evaluation of Management’s Comments.....	8
Appendix A: Additional Information	9
Background	9
Objective, Scope, and Methodology	9
Prior Audit Coverage	11
Appendix B: Monetary Impacts	12
Appendix C: Volume and Revenue Growth for Negotiated Service Agreements Reviewed	13
Appendix D: Negotiated Service Agreements Reviewed With Sample Percentage	14
Appendix E: Management's Comments	16

Introduction

This report presents the results of our audit of the U.S. Postal Service's Domestic Negotiated Service Agreements (NSAs) (Project Number 12WG006EN000). Our objective was to evaluate the process for managing domestic NSAs and determine whether mail volume and revenue increases occurred. This was a self-initiated audit and addresses strategic and financial risks. See [Appendix A](#) for additional information about this audit.

NSAs are customized contractual agreements between the Postal Service and specific mailers. These agreements are developed to promote efficiency and product innovation by providing customers special rebates, discounts, or pricing flexibility, allowing the Postal Service to respond to rapid changes in the marketplace. NSAs are similar to agreements that other companies make with individual customers to meet unique needs or opportunities.

The Postal Service's Board of Governors must authorize NSAs and the Postal Regulatory Commission (PRC) must approve them. The Postal Service is required to file documentation with the PRC showing that any prospective NSA meets the regulatory criteria and to report results annually.

There are two types of NSAs — competitive and market dominant:

Competitive NSA: Agreements pertaining to Postal Service products or services that are usually similar to products or services offered by other companies in the marketplace.¹ Competitive products include Express Mail^{®2} and Priority Mail^{®3} packages, which are in direct competition with market products from other suppliers, such as FedEx and United Parcel Service. The agreements are proprietary, considered sensitive, and not publicly disclosed. The majority of NSAs are for competitive products.

Market Dominant NSA: Agreements pertaining to products for which the Postal Service essentially has a monopoly and for which it can set the price substantially above costs, significantly raise the price, or decrease quality or output, without the risk of losing a significant level of business to other firms offering similar products.⁴ The Postal Service is authorized to enter into a market dominant NSA with any mailer if it will provide a net financial benefit to the Postal Service or enhance its operating performance, as long as it does not cause unreasonable harm to the marketplace. Market dominant products

¹ The Postal Service can create competitive NSAs as result of its inherent contracting authority, and not based on any specific regulation.

² Express Mail is the Postal Service's fastest service for time-sensitive letters, documents, or merchandise.

³ The Postal Service delivers Priority Mail documents and packages in 2 to 3 days.

⁴ 39 U.S.C. §3642(b)(1) (2006).

include products such as Standard Mail, First-Class™ Mail, Periodicals Mail, and Package Services Mail. These products do not have any significant competition in the marketplace because the Postal Service is virtually the only supplier offering these types of delivery products. Details regarding these agreements are publicly disclosed. NSAs for market dominant products must comply with the statutory requirement that the Postal Service not unduly or unreasonably discriminate among users of mail or cause unreasonable harm to the marketplace.⁵

While the Postal Service is able to verify volume and revenue increases associated with NSAs, an inherent challenge related to measuring the success of an NSA is determining whether any increases were a direct result of incentives offered by the agreement or whether mailers would have increased their mailing activity regardless of the incentives (this is known in the industry as 'anyhow mail'). Consequently, the Postal Service may provide an unnecessary incentive to mailers who were planning to increase their volume activity despite the NSA.

Another challenge with NSAs involves market discrimination. Market discrimination can occur when the Postal Service offers discounts to one provider that it does not offer to any other provider that mails similar items. In an attempt to address this issue, the PRC adopted rules requiring the Postal Service to offer functionally equivalent market dominant NSAs to similarly situated mail providers. A mail provider recently filed a complaint with the U.S. Court of Appeals, District of Columbia Circuit (D.C. Circuit) on the grounds that it was denied the same service as other similarly situated mail providers. The mailer alleged that the Postal Service's failure to provide the same service offered to other mailers violated the same anti-discrimination provisions that apply to NSAs. Although the complaint was not based on any formal NSA, it demonstrates the sensitivity and controversy related to this issue. On March 7, 2013, the D.C. Circuit remanded the case to the PRC to develop a remedy for undue discrimination.

The Postal Service had 53⁶ active competitive NSAs and one market dominant domestic NSA and reported \$1.7 billion in revenue to the PRC in fiscal year (FY) 2012. From FYs 2008 through 2013 (as of March 26, 2013), the Postal Service proposed and the PRC approved 132 competitive and four market dominant NSAs. [Table 1](#) shows the number of competitive and market dominant NSAs approved by the PRC by fiscal year.

⁵ 39 U.S.C. §3622(c) (10)(B).

⁶ The 53 competitive NSAs consisted of 62 products and the one market dominant NSA consisted of two products.

Table 1: Domestic NSAs Approved by the PRC

Type of NSA	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	Total
Competitive	40	32	14	13	31	2	132
Market Dominant	0	1	1	0	0	2	4
Total	40	33	15	13	31	4	136

Source: PRC website and annual reports to the U.S. resident, U.S. Congress, and Postal Service management.

The Postal Service is facing significant financial challenges and has taken a number of actions to address them. The Postal Service developed the Delivering Results, Innovation, Value, and Efficiency (DRIVE) initiative to help improve business performance at an accelerated pace and to meet the critical needs of operating in today's competitive and challenging marketplace. As such, NSAs play an important role in the DRIVE process by promoting product and service growth. While this audit addressed domestic NSAs, we plan to conduct a review in the near future of international NSAs that consist of competitive and market dominant products.

Conclusion

Our review of nine NSAs, which collectively reported more than [REDACTED] in revenue to the PRC for FY 2011,⁸ revealed the agreements generally resulted in mail volume and revenue increases. We confirmed that the Postal Service validated mail volumes reported by customers against its own data sources before entering into an NSA. However, we could not determine whether the increases in revenue and volume were a direct result of incentives offered by the agreements or whether mailers would have increased their mailing activity regardless of the incentives. In addition, the Postal Service did not always use accurate data to calculate rebates and discounts, which resulted in \$1.2 million in incorrect and questionable customer rebates and quarterly price adjustments. See [Appendix B](#) regarding our monetary impacts. Further, the data reported to the PRC did not always agree with the amounts the Postal Service used to calculate discounts and rebates. Finally, the Postal Service does not have specific criteria governing retention of NSA data. We also noted another matter related to the statutory requirement that agreements cannot cause unreasonable harm to the marketplace.

Data Discrepancies

While the Postal Service validated customer mail volume using its own data sources, before to entering into an NSA, the data used to calculate rebates, discounts, and mail volume growth were not always validated and accurate. In addition, the data reported to the PRC did not always agree with the amounts the Postal Service used to calculate

⁸ [REDACTED]
Eight of the nine judgmentally selected NSAs we reviewed resulted in mail volume and revenue increases. The other agreement was continued to retain mailing activity that would not have occurred without an NSA and comprised only [REDACTED] of the total revenue generated from the NSAs we reviewed.

discounts and rebates. This occurred because the group responsible for calculating discounts and rebates and the group responsible for reporting results to the PRC do not have standardized processes to reconcile or coordinate their data efforts. As a result, we identified \$1.2 million in incorrect and questionable rebates and quarterly price adjustments provided to customers. We believe validation of the data used to determine that rates, discounts, and rebates would lead to improved accuracy, transparency, and reliability.

Discount and Rebate Errors

Postal Service product managers did not always identify errors in data used to determine discounts, rebates, and mail volume growth. For example, we found:

- One customer paid [REDACTED] per mailpiece than the agreed-upon rate during the first 2 years of one [REDACTED] agreement.⁹ As a result, the Postal Service did not collect [REDACTED] letter pieces processed between [REDACTED]. Managers stated they were not aware of the discrepancy and assumed the correct price was provided to information technology personnel who programmed the customized NSA rates into the reporting system¹¹ [REDACTED]
- For one [REDACTED] NSA, the Postal Service used an incorrect quarterly price discount. Postal Service staff conducted an annual analysis to identify the lowest rate for each weight category by calculating an adjusted base price¹² and comparing it to the published price.¹³ Quarterly discounts must be calculated based on the lesser of the two prices; however, managers did not use the lesser of the two prices to calculate the discounts. This resulted in the customer being charged higher rates for more than [REDACTED] items mailed between [REDACTED]. As a result, the customer was erroneously overcharged [REDACTED]
- One [REDACTED] mailer was overpaid [REDACTED] in its annual rebate for NSA activity from [REDACTED]. The agreement required the Postal Service to issue an annual rebate based on mail volume growth; however, the Postal Service manager inadvertently retrieved the incorrect mail volume from a spreadsheet prepared by another manager. In October 2012, Postal Service management stated they would initiate corrective action by discussing the issue with the customer and requesting a refund of the overpayment. In addition, management is submitting a *PostalOne!*¹⁵ system change to automate and standardize the NSA

⁹ The NSA lists the applicable prices.

¹⁰ We did not claim monetary impact for this amount because it exceeded the 2-year allowable timeframe.

¹³ The published price is the normal price listed in the Postal Service's *Notice 123*.

¹⁴ Although the condition occurred from [REDACTED] we are only claiming monetary impact for [REDACTED]

¹⁵ The Postal Service's primary system for recording commercial mail transactions and managing customer accounts.

process related to rebates, discounts, base prices, and volume levels. As of April 2, 2013, management had not collected the overpayment from the customer

Postal Regulatory Commission Reporting

The Postal Service is required to report to the PRC annually on the performance of active NSAs.¹⁶ However, the mail volume and revenue data reported to the PRC to determine annual NSA compliance were inconsistent with mail volumes and revenue used by the Postal Service to determine discounts and rebates to customers. This occurred because product and finance managers¹⁷ did not have a standardized process in place to reconcile or coordinate their data efforts. Table 2 shows the discrepancies we identified with competitive NSAs.

Table 2: Summary of Inconsistent Data Reported to the PRC

Competitive NSA/ Product(s)	Fiscal	Management's Records		Reported to PRC		Difference	
	Year (s)	Volume	Revenue	Volume	Revenue	Volume	Revenue
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: Postal Service NSA data.

Negotiated Service Agreements Data Retention and Central Repository

The Postal Service does not have criteria for retaining¹⁸ NSA data or requiring the use of a central repository to maintain this data. While we were able to validate volume and revenue growth by assessing the data provided to the PRC to prepare its annual compliance determination report, management did not always retain historical or analytical data and information, such as methodologies used for rebates and discount calculations. As a result, we could not determine whether all volume and revenue

¹⁶ 39 U.S.C. §§3652 (a), (g).

¹⁷ Product managers are responsible for calculating discounts and rebates provided to the mailers and the finance managers are responsible for reporting results to the PRC.

¹⁸ Records retention schedules are officially maintained in the Postal Service's Electronic Records and Information Management System; however, there are no schedules related to NSA data.

increases were a direct result of incentives offered by the agreements. Management stated a central repository for historical NSA data does not exist because each business owner is responsible for maintaining his or her own documentation.

In one instance, we found that Postal Service management did not provide volume and revenue data to support an adjusted rebate payment of [REDACTED] awarded to a customer for its [REDACTED] mailing activity. Postal Service management stated this one-time adjustment occurred in the first year of the agreement when they experienced computer programming challenges in gathering all the data. However, management did not retain volume and revenue data used to determine the additional rebate amount. In the absence of this support, the Postal Service could not justify the validity of the rebate payment amount.

A central repository of documentation would help management maintain confidential historical data and assist with future NSA decision making. The repository should include:

- The methodology the Postal Service uses to project a customer's mail volume to determine discounts.
- A comparison of the mailer's pre-NSA volume with its annual volume under the NSA.
- Analyses of data from other mailers with similar NSAs.

Although the PRC has imposed detailed data collection standards for NSAs, the data in the central repository would be more thorough and useful than the data collected to comply with PRC requirements. Additionally, it is a good business practice to use a central repository to ensure timely, efficient, and accurate retrieval of needed information. As a result of this audit, the Postal Service has begun collaborating with the privacy office and the NSA sales office to develop a retention schedule for NSA data.

Other Matters

Unreasonable Harm

The statutory requirement, which states a market dominant NSA cannot cause unreasonable harm to the marketplace, has yet to be clearly defined. Current regulations specify that it is the PRC's responsibility to evaluate whether an NSA causes unreasonable harm to the marketplace before approving it.¹⁹ However, the law that governs this area²⁰ does not formally define the meaning of unreasonable harm to the marketplace. According to Postal Service and PRC management, the term did not need to be defined in the past because until recently no NSA had been challenged on the grounds of unreasonable harm to the marketplace. A market dominant NSA is currently

¹⁹ 39 U.S.C. §3622(c)(10)(B).

²⁰ 39 U.S.C. §3622(c)(10)(B).

being challenged in the D.C. Circuit Court on the basis that, among other reasons,²¹ implementation of the agreement would cause unreasonable harm to the marketplace. Therefore, we are not making a recommendation at this time because of the pending court case and possible legislative changes.

Recommendations

We recommend the vice president, Sales, in coordination with the chief financial officer and executive vice president:

1. Develop and implement standardized procedures for managing NSAs. The procedures should include requirements for validating data used by individuals for various internal and external reporting purposes.

We recommend the vice president, Sales:

2. Create a data retention policy and central repository for data archival. Specifically, the data should be retained throughout the life of the NSA and for a specified period after the agreement expires or is terminated. Historical data should include:
 - The methodology the Postal Service uses to project a customer's mail volume to determine discounts.
 - A comparison of the mailer's pre-agreement volumes with its annual volumes under the NSA.
 - Analyses of data from other mailers with similar NSAs.

Management's Comments

Management generally agreed with our findings and agreed with our recommendations. Regarding recommendation 1, management will develop and implement standardized procedures related to NSAs.

Regarding recommendation 2, management plans to develop a data retention policy and central repository for data archival. Management will retain data throughout the life of the NSA and for a specified period after the agreement expires or is terminated. Corrective actions for both recommendations will be implemented by October 31, 2013.

Management agreed with our conclusion that a [REDACTED] mailer was overpaid [REDACTED] in its annual rebate for activity from [REDACTED]. Management received verbal agreement from the mailer to repay the overpaid rebate amount and on April 19, 2013, Corporate Accounting sent a signed letter to the mailer seeking recovery of the funds.

²¹ The NSA is also being challenged on the grounds that it will worsen the Postal Service's net financial position.

Management did not agree with our conclusion that one ██████ NSA customer was overcharged ██████. In subsequent conversations, management stated they further analyzed the NSA discount calculations after issuance of the draft report and determined the payments were correct. Further, the customer was informed of the discounts used throughout the term of the NSA and did not dispute the calculations.

In subsequent discussions, management also did not agree with ██████ in monetary impact related to the insufficient support for a rebate adjustment; management believed it was fully supported. See [Appendix E](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

Regarding the ██████ discount, the OIG provided its methodology to management throughout the course of this audit and had a Postal Service pricing economist validate the calculations. In addition, management had several opportunities to state their disagreement with our calculations when we first brought the issue to their attention in October 2012. However, management did not inform us of their disagreement until after we issued the draft report. In addition, management has not provided any documentation to support errors in our calculations or their claim that the customer has concurred with the discounts given. Since it appears that neither Postal Service management nor the customer considers the discount amount to be in dispute, we will not pursue it through the formal audit resolution process.

Regarding the insufficient volume and revenue data cited in the report to support a rebate payment of ██████ management provided a signed *Authorization For Payment* memo dated February 22, 2011. However, they did not provide sufficient support for the mail volume and revenue calculations used to validate the adjustment. Therefore, we did not make any changes to the report regarding this issue.

We believe management's responses to these two issues are indicative of the data discrepancies and insufficient data retention procedures outlined in this report.

The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations 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.

Appendix A: Additional Information

Background

The Postal Service develops NSAs with customers who will increase its mail volume and revenue in return for mailing at reduced rates. Each NSA is unique and generally covers a 3-year period and offers customers discounts, rebates or customized pricing.

The Postal Service files the potential NSA and its justification with the PRC. It is the PRC's responsibility to determine whether the agreement improves the Postal Service's net financial position or mail processing functions and does not cause unreasonable harm to the marketplace before actually approving it.²² The PRC will also assign an NSA as a competitive or market dominant product. Competitive NSAs are customized agreements pertaining to Postal Service products or services that are usually similar to products or services offered by other companies in the marketplace. Revenue from each competitive product must be greater than the costs attributed to that particular product. Market dominant NSAs are customized agreements pertaining to products for which the Postal Service essentially has a monopoly and for which it can set the price substantially above costs, significantly raise prices, or decrease quality or output, without the risk of losing a significant level of business to other firms offering similar products.²³ A product manager is assigned to each agreement and routinely monitors customers' mailing activities. The Postal Service must report these mailing activities annually to the PRC to ensure that each agreement complies with statutory requirements.

Objective, Scope, and Methodology

Our objective was to evaluate the process for managing domestic NSAs and determine whether they resulted in mail volume and revenue increases. To accomplish our objective, we reviewed nine judgmentally selected domestic NSAs, consisting of 12 products, to validate the accuracy of certifications, performance, discounts/rebates, and mail volume growth filed with the PRC. These consisted of nine competitive and three market dominant products. See [Appendix C](#) for volume and revenue growth and [Appendix D](#) for the NSAs reviewed and revenue percentage. These nine NSAs consisted of about [REDACTED], which represented about [REDACTED] for all NSAs during this period.

²² 39 U.S.C. §3622 (c)(10).

²³ 39 U.S.C. §3642 (b)(1).

We also:

- Selected the five top revenue-generating competitive NSAs for FY 2011 — the first competitive NSA approved, one expired NSA, one active NSA, and one market dominant NSA that was pending approval in our sample.
- Analyzed discounts and rebates awarded to determine their reasonableness.
- Examined internal documents and system data used to monitor mailers' performance.
- Obtained and reviewed the PRC's *Annual Compliance Determination Report* for FYs 2009–2011 to gain the PRC's perspective on NSA performance results.
- Determined the process for cancelling or terminating NSAs.
- Conducted interviews with vice presidents, managers, and staff members responsible for NSA solicitation, administration, and monitoring.
- Assessed the methodology used to evaluate unreasonable harm to the marketplace and conducted discussions with PRC, Postal Service, and OIG management and general counsel to determine how they define the term.

We conducted this performance audit from March 2012 through April 2013 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 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 March 26, 2013, and included their comments where appropriate.

We identified applications, databases, and systems Postal Service management used to extract or generate revenue and volume data related to NSAs. We validated the data contained in these systems and used them to develop the issues identified in this report. We determined that the data were sufficiently reliable for the purposes of this review.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Postal Service's Innovation Process for Competitive and Market Dominant Products</i>	MS-AR-11-004	6/8/2011	None
<p>Report Results: The Postal Service has regulatory and market constraints to innovation that private companies do not have and must prove to the PRC that new products and services will not violate statutory restrictions, will cover their attributable costs, and will not create an unfair competitive advantage. The report recommended management increase their efforts to support a culture of innovation that would support advancements within the current statutory authority. This includes a comprehensive innovation strategy and a more disciplined process for the development and implementation of market-based initiatives. Management agreed with the conclusion and the recommendation to continue working toward legislative changes.</p>			
<i>Fiscal Year 2009 Standard Mail Volume Incentive Program</i>	FF-AR-10-196	7/16/2010	None
<p>Report Results: The Postal Service reported both volume and revenue increases resulting from the FY 2009 Summer Sale. However, the processes used to calculate the reported increases might result in misleading reported revenue and volume impacts. Management generally agreed with the findings and recommendations but did not feel the report reflected the intangible benefits of the Summer Sale. The Postal Service continues to make improvements to its incentive processes and implement best practices learned from the 2009 Standard Mail Summer Sale.</p>			
<i>Strategies and Options to Facilitate Progress toward Financial Viability</i>	GAO 10-455	4/12/2010	None
<p>Report Results: Under the Postal Accountability and Enhancement Act of 2006, the U.S. Government Accountability Office evaluated strategies and options for reform of the Postal Service. The Postal Service faces financial losses that it projects could total more than \$238 billion through FY 2020, unless it can substantially reduce its costs, including the size of its operations, networks, and workforce to reflect declining mail volume and to generate new revenue. Congress should consider providing financial relief, such as revising the Postal Service's retiree health benefit funding and requiring any binding arbitration to take the Postal Service's financial condition into account. At the same time, congress should consider setting up a panel of experts to develop proposals for broader legislative and operational reform. The Postal Service agreed with the report's key findings but raised concerns about a panel and its timing.</p>			

Appendix B: Monetary Impacts

Recommendation	Impact Category	Amount
1	Refundable Revenue ²⁴	\$755,112
1	Revenue Loss ²⁵	409,189
2	Unsupported, Questioned Costs ²⁶	82,557
Total		\$1,246,858

²⁴ Amounts the Postal Service may owe to customers who have overpaid for a service or product. Actually it is a negative cash flow for the Postal Service but counts as a positive for internal OIG purposes.

²⁵ Amount the Postal Service is (or was) entitled to receive but was underpaid or not realized because policies, procedures, agreements, requirements, or good business practices were lacking or not followed. May be recoverable or unrecoverable. May apply to historical events or a future period (in the sense perceived future losses may be prevented by the implementation of a recommendation).

²⁶ A weaker claim and a subset of questioned costs. Claimed because of failure to follow policy or required procedures, but does not necessarily connote any real damage to the Postal Service.

Appendix C: Volume and Revenue Growth for Negotiated Service Agreements Reviewed

		FY 2009		FY 2010			FY 2011		
NSA ²⁷	Product	Volume	Revenue	Volume	Revenue	Percentage Revenue Growth (FY 2009 to 2010)	Volume	Revenue	Percentage Revenue Growth (FY 2010 to 2011)
Competitive:									
1	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
3	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
4	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
5	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
6	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Market Dominant:									
7	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
8	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
9	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: Postal Service NSA Cost and Revenue Summary for FYs 2009-2011 for competitive NSAs and the PRC website for market dominant NSAs.

Note: N/A means not applicable.

²⁷ Nine NSAs that consisted of 12 products -- nine competitive and three market-dominant products.

[REDACTED]

Appendix D: Negotiated Service Agreements Reviewed With Sample Percentage

NSA	Product	Total Volume Reported to PRC for FYs 2009-2011	Total Revenue Reported to PRC for FYs 2009-2011	Revenue Percentage of Sample
Competitive:				
1	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
3	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
4	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
5	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
6	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Market Dominant:				
7	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
8	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
9	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Sample Total		[REDACTED]	[REDACTED]	[REDACTED]

Source: OIG analysis April 2013.

We reviewed nine NSAs that consisted of 12 products -- nine competitive and three market dominant products. Eight of the nine judgmentally selected NSAs we reviewed resulted in mail volume and revenue increases.

[REDACTED]

[REDACTED]



Appendix E: Management's Comments



April 22, 2013

JUDITH LEONHARDT
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report—Domestic Negotiated Service Agreements
(Report Number MS-AR-13-DRAFT)

The findings and recommendations outlined in the Domestic Negotiated Service Agreements (NSA) Draft Audit Report have been reviewed and the response is as follows. We also request that all confidential and contract-related data be redacted from the audit report as noted below.

Recommendations for Vice President, Sales, in coordination with the Executive Vice President, Finance:

Recommendation 1:

Develop and implement standardized procedures for managing negotiated service agreements. The procedures should include requirements for validating data used by individuals for various internal and external reporting purposes.

Management Response/Action Plan:

Management is in agreement with the recommendation and development of standardized procedures and is already in progress. Sales will coordinate with Finance to implement standardized procedures for managing NSAs.

Target Implementation Date:

October 2013

Responsible Manager:

Cliff Rucker, Vice President, Sales

Recommendations for Vice President, Sales:

Recommendation 2:

Create a data retention policy and central repository for data archival. Specifically, the data should be retained throughout the life of the agreement and for a specified period after the agreement expires or is terminated. Historical data should include:

- The methodology used by the Postal Service to project a customer's mail volume to determine discounts.
- A comparison of the mailer's pre-NSA volumes with its annual volumes under the NSA.
- Analyses of data from other mailers with similar NSAs.

- 2 -

Management Response/Action Plan:

Management is in agreement with the recommendation and will create a data retention policy and central repository for data archival. Data will be retained throughout the life of the agreement and for a specified period after the agreement expires or is terminated, which will be coordinated in compliance with Postal Service regulations governing data retention periods.

Target Implementation Date:

October 2013

Responsible Manager:

Cliff Rucker, Vice President, Sales

Also, management disagrees with the following section from the audit report and requests that this section be redacted in the audit report as well as the management response associated with this section.

OIG Statement [bulleted section, Pages 4-5, MS-AR-13-DRAFT]:

For one [REDACTED] NSA, the Postal Service used an incorrect quarterly price discount. Postal Service staff conducted an annual analysis to identify the lowest rate for each weight category by calculating an adjusted base price and comparing it to the published price. Quarterly discounts are required to be calculated based on the lesser of the two prices. However, managers did not use the lesser of the two prices to calculate the discounts. This resulted in the customer being charged higher rates for more than [REDACTED] items mailed between [REDACTED] [REDACTED]. As a result, the customer was erroneously overcharged [REDACTED] for fiscal years [REDACTED].

Management Response:

After further review of the methodology used to determine the discount provided for [REDACTED] we disagree with the conclusion of the OIG that "the Postal Service used an incorrect quarterly price discount" for the [REDACTED] NSA referenced on Pages 4-5 of the Domestic Negotiated Service Agreements, Draft Audit Report (MS-AR-13-DRAFT).

The Vice President, New Products and Innovations, and Acting Manager, Regulatory Reporting and Cost Analysis have reviewed the statement above and believe that the Postal Service's payment was correct. Moreover, the customer was informed about the discounts throughout the term of the contract and has not disputed the calculations used by the Postal Service. Neither party considers the discount calculation to be in dispute. To our knowledge, both parties have interpreted the contract the same way, and are satisfied with how the discounts were paid out.

OIG Statement [bulleted section, Page 5, MS-AR-13-DRAFT]:

One [REDACTED] in its annual rebate for NSA activity from [REDACTED]. The agreement required the Postal Service to issue an annual rebate based on mail volume growth; however, the Postal Service manager inadvertently retrieved the incorrect mail volume from a spreadsheet prepared by another manager. In October 2012, Postal Service management stated they would initiate corrective action by discussing the issue with the customer and requesting a refund of the overpayment. In addition, management is submitting a PostalOne! 18 system change to automate and standardize the NSA process related to rebates, discounts, base prices, and volume levels. As of April 2, 2013, management had not collected the overpayment from the customer [REDACTED].

- 3 -

Management Response/Action Plan:

We concur with the findings of the audit and have verbal agreement from this mailer to repay the overpaid rebate amount. A letter signed by the Acting Manager, Corporate Accounting, Scott Davis, seeking recovery of the funds was mailed to this customer on April 19, 2013.

This report and management response contains information that may be exempt from disclosure under the FOIA. It is requested that highlighted redactions be made per the attached document as well as redaction of all sections that refer to NSAs.



Joseph Corbett
Chief Financial Officer &
Executive Vice President



Cliff Rucker
Vice President, Sales

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