Postal Service Oversight of Parcel Select

AUDIT REPORT

Report Number 24-044-R25 | December 19, 2024

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Highlights

Background

In fiscal year 2023, Parcel Select was the largest volume U.S. Postal Service package offering – about 3.6 billion packages and over $10 billion in revenue – the vast majority coming through custom pricing contracts with large shippers. All Parcel Select shippers must comply with various policies, including weight and size limits. Parcel Select requires shippers to aggregate and drop large volumes of packages close to the delivery point to bypass Postal Service processing and handling costs. Packages dropped at incorrect locations are considered "mis-shipped" and require additional postage, and overweight or oversized packages may require additional fees. To safeguard Parcel Select revenue, the Postal Service must enforce policy and contracts.

What We Did

Our objective was to evaluate the Postal Service's oversight of contractual and policy requirements and revenue collection for Parcel Select. We interviewed staff, conducted site visits, and analyzed 9 billion Parcel Select packages shipped from October 2021 to July 2024.

What We Found

Although the Postal Service audited contractual postage rates and reviewed whether shippers met contractual volume requirements, it failed to identify 45.4 million packages dropped at the wrong location – packages that should not have received Parcel Select pricing. This occurred because the Postal Service did not automate processes or systems to successfully monitor location-based compliance. As a result, the Postal Service did not collect about $[redacted] million in owed postage. Additionally, the Postal Service delivered more than 80,000 Parcel Select overweight or oversized packages, rather than hold them as required, mostly without collecting the penalty fee. The Postal Service lost approximately $7.6 million in revenue and created safety risks for the employees who delivered these packages. Looking forward, the Postal Service should enhance its contractual oversight to incorporate some product policies to confirm that its largest customers use the Parcel Select product as it was designed.

Recommendations and Management's Comments

We made eight recommendations to improve Parcel Select oversight. We consider management's comments responsive to recommendations 1, 3, 4, 5, 6, 7, and 8, as corrective actions should resolve the issues identified, with recommendations 3 and 7 closed upon issuance of this report. Management disagreed with recommendation 2, and we will work with the Postal Service through the formal audit resolution process. Management's comments and our evaluation are at the end of the findings and recommendations. Appendix B has management's comments in their entirety.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

December 19, 2024

MEMORANDUM FOR: STEVE M. DEARING
VICE PRESIDENT, CHIEF DATA & ANALYTICS OFFICER

DANE A. COLEMAN
VICE PRESIDENT, PROCESSING OPERATIONS

ANGELA D. LAWSON
VICE PRESIDENT, TECHNOLOGY APPLICATIONS

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GARY C. REBLIN
VICE PRESIDENT, APPLIED ENGINEERING

RAJINDER SANGHERA
VICE PRESIDENT, RETAIL AND POST OFFICE OPERATIONS

MARGARET M. PEPE
EXECUTIVE DIRECTOR, PRODUCT SOLUTIONS

Amanda H. Stafford

FROM: Amanda H. Stafford
Deputy Assistant Inspector General
for Retail, Marketing, and Supply Management

SUBJECT: Audit Report – Postal Service Oversight of Parcel Select
(Report Number 24-044-R25)

This report presents the results of our audit of the U. S. Postal Service's oversight of Parcel Select.

All recommendations require U.S. Postal Service Office of Inspector General (OIG) concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations 1, 4, 5, 6, and 8 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. We consider recommendations 3 and 7 closed with issuance of this report and will work with management through the audit resolution process on recommendation 2.

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

Attachment

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

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the Postal Service Oversight of Parcel Select (Project Number 24-044). Our objective was to evaluate the U.S. Postal Service's administration of policy and contractual requirements and revenue collection with its largest package customers. See Appendix A for additional information about this audit.

Background

Parcel Select is the largest Postal Service package offering by volume, with more than 3 billion packages shipped in fiscal year (FY) 2023, generating more than $10 billion in revenue. Parcel Select is the Postal Service's lowest-priced[1] package product, and it caters to consolidators[2] and large shippers. To use the product, shippers must aggregate, presort, and palletize packages then drop them off in bulk at postal facilities – a process known as dropshipping. Shippers must drop the pallets at specific postal plants or post offices close to the delivery point. The Postal Service delivers the packages the "last mile" to the recipient at the final destination, as shown in Figure 1.

Postal Service Parcel Select Policies

Parcel Select policies establish a range of location-based pricing categories, dependent upon where the shipper will drop the package. Shippers who drop at plants pay the highest rates, since their packages incur costs to be transported through the Postal Service's processing network. Shippers who dropship packages at post offices that house the mail carriers who will deliver the packages — also known as Destination Delivery Units (DDU) — pay the lowest Parcel Select prices, since their packages bypass the entire processing network.

The Postal Service also has a weight and size-based policy for Parcel Select packages. The maximum allowable weight is 70 pounds. Packages also must not exceed dimensions of 130 inches (length plus "girth").[3] Any package exceeding the maximum weight or size is considered nonmailable, and the Postal Service should hold the package for customer pickup for up to 14 days instead of delivering it. Overweight and oversized packages are subject to a $100 fee unless they are picked up at the same facility where they were entered or initially dropped.

Figure 1. Parcel Select Overview

Source: OIG Graphic based on USPS Parcel Select Mail Preparation and Procedures.

1 Compared to USPS Ground Advantage, Priority Mail, and Priority Mail Express.
2 Parcel consolidators aggregate and presort packages from multiple shippers. We use "shippers" throughout this report to refer to both shippers and consolidators.
3 Girth is the measurement around the thickest part of the package. For a detailed explanation of girth see: https://pe.usps.com/text/qsg300/q201e.htm.

Negotiated Service Agreements (NSA) Provisions and Oversight

The vast majority of Parcel Select revenue comes from the largest shippers, which have custom contracts or NSAs for special pricing and terms of service with the Postal Service. Parcel Select NSAs are complex, with dozens of provisions that vary by shipper. Large NSAs generally include volume-based pricing, allowing shippers to qualify for a lower pricing "tier" based on their shipping volume during a previous quarter or year. Each NSA is unique, and shippers may negotiate special provisions, such as waiving some of the standard fees for larger packages.[4]

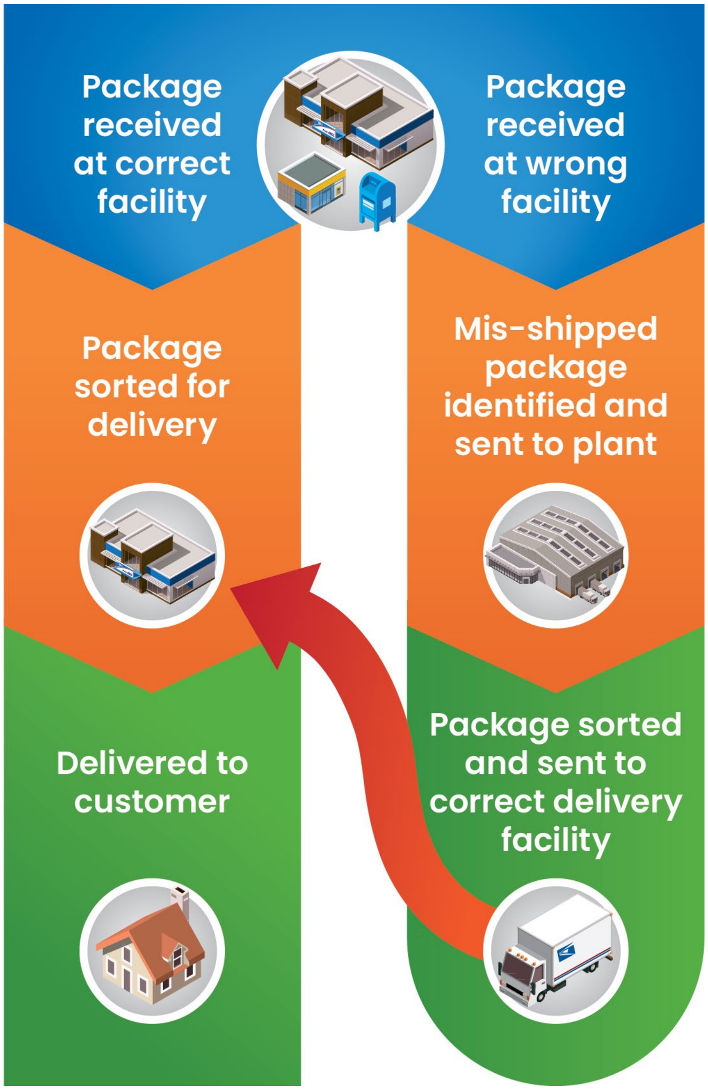
The Postal Service's Revenue Analysis team reviews the shipper's performance[5] under the agreement every three months. The Vice President of Pricing and Costing presents the results of those quarterly business reviews to senior Postal Service executives. In addition, the Revenue Evaluation team oversees internal audits of NSA agreement prices, which can vary based on volume and other factors. These audits assess whether the Postal Service is assigning the correct rates to each shipper.

Processing Parcel Select Packages

When shippers drop Parcel Select packages at a plant, the Postal Service scans the pallet and conducts an automated verification that the shipment was dropped in the correct location. Clerks then run the packages through processing equipment. The equipment applies scans and sorts the packages into containers that are transported to the next destination, typically a DDU.

When a shipper bypasses the processing network and drops off directly at a DDU, Postal Service staff should verify that the pallet and the packages are addressed to ZIP Codes covered by the DDU's delivery routes. If so, the pallet is scanned as accepted and brought into the DDU for further processing and delivery. Some DDU's use overhead scanning equipment while others sort packages manually and scan them with handheld scanners.

Figure 2. Flow of DDU Packages



Source: OIG Graphic based on USPS Parcel Select Mail Preparation and Procedures.

If the packages do not belong at the DDU, the Postal Service should reroute packages via a Postal Service plant to be sent to the correct DDU (see Figure 2). Before they reroute the package to the plant, the clerk should first apply one of two scans:

4 Parcel Select includes additional fees for packages that are within mailable limits but exceed certain size benchmarks. For example, DDU packages have a $6 fee if greater than 30 inches in length and an $18 fee for packages larger than 2 cubic feet. *Price List Notice 123*, U.S. Postal Service, July 14, 2014, https://pe.usps.com/text/dmm300/notice123.htm#_c139.

5 These reviews include assessing whether shippers met volume requirements and paid the fees owed per their contracts.

- **Mis-shipped scan** – applied when the shipper dropped off the package at the wrong DDU, or
- **Mis-sent scan** – applied if the Postal Service plant sorted the package incorrectly and sent the package to the wrong delivery unit.

Whether clerks apply a mis-shipped or missent scan impacts the revenue the Postal Service collects. For each package scanned as mis-shipped, the Postal Service generates an automated monthly report and charges the shipper for the difference between the lower Parcel Select DDU price the shipper paid and the higher USPS Ground Advantage[6] price for each package. The additional postage varies by shipper and package but averaged $[redacted] more per package in FY 2023. However, if the clerk applies the "missent" scan, it indicates a Postal Service error, and no additional funds are collected. If the clerk does not apply one of the two scans, by default no additional postage is collected.

In FY 2023, shippers dropshipped about 90 percent of Parcel Select packages at DDUs and about 10 percent at Postal Service processing plants, though those proportions are set to change in the future. In August 2024, the Postal Service announced plans to incentivize consolidators to drop more of their packages at plants, rather than DDUs. The Postal Service is taking a phased approach to these changes, and DDUs will continue to see direct dropshipments from large shippers that are not consolidators.

Scans Show a Package's Path Through the Network

In addition to mis-shipped and missent scans, the Postal Service uses other scans to gather data about packages. These scans tell a package's story, chronicling its path as it travels through the Postal Service's network. Each scan becomes an event in the package's tracking history, and recipients can view an abridged version of that history on USPS.com to have end-to-end visibility of their packages. For example, packages may receive acceptance scans when they enter a Postal Service facility and processing scans when they pass through a package sorting machine. Scans include a timestamp and the ZIP Code where they occurred, though not all scans are equally reliable.

- **Physical scans.** The most reliable scans are those performed on the package itself — either via machine or a Postal Service employee with a handheld scanner.
- **System-generated scans.** The Postal Service's Product Tracking and Reporting (PTR) software automatically creates system-generated scans based on a variety of criteria. This can make them less reliable than physical scans, particularly for packages that do not enter the mailstream as expected.

For Parcel Select, a common system-generated scan type is an "Acceptance at Destination" (AD) scan, which serves as a proxy acceptance of a package. When mail processing equipment scans a Parcel Select package, the system retroactively applies an AD scan 75 minutes earlier. This system was put in place as part of an arrangement with the commercial mailing and shipping industry that allowed the Postal Service to avoid physically scanning every item dropped at a processing plant.

The Postal Service does not have a dedicated scan that indicates when it took custody of a package. Instead, the tracking system is programmed to evaluate various scans in the package's history and designate one scan as the "start-the-clock event," which serves as an indicator of where the package was dropshipped. The Postal Service uses this start-the-clock event to measure service performance by calculating how quickly a package moved through the system based on that event's indication of when and where the Postal Service accepted the package. Although some Postal Service products allow shippers to drop packages at any nearby postal facility,[7] Parcel Select requires packages to be dropped at precise locations. System-generated

6 The USPS Ground Advantage price includes taking the package the entire way through the postal network instead of only the last mile (Parcel Select).
7 End-to-end Postal Service products like Priority Mail and USPS Ground Advantage use zone-based pricing. This allows shippers to drop packages at any nearby postal facility, so long as it does not change the number of zones the package will travel to reach the delivery point.

scans do not always identify that location with the required precision.

Transition to USPS SHIP

Since 2005, Parcel Select shippers used the Postal Service's Electronic Verification System (eVS) to generate electronic manifests that include each package's weight, dimensions, the type of facility where it will be dropshipped (e.g., DDU or plants of different types), the ZIP Code where it will enter the mailstream, and postage paid. The manifest serves as a critical record for the dropshipment and the individual packages included in the dropshipment. Shippers also use eVS to print postage, submit payments, and handle postage reconciliations — including those for mis-shipped packages.

In 2018, the Postal Service began developing a new manifest and payment platform called USPS SHIP. The Postal Service made this decision to avoid further investment in eVS, a legacy system that has significant internal control weaknesses, lacks automated payment reconciliations, and requires other workarounds to ensure proper postage payment. During the COVID-19 pandemic, bottlenecks at plants prompted the Postal Service to accelerate development and implementation of USPS SHIP, since eVS was unable to detect packages incorrectly dropped at plants. While some parts of the new platform have rolled out in recent years, 99.8 percent of Parcel Select volume still flowed through eVS during our scope period.[8] The Postal Service plans to fully transition Parcel Select shippers to USPS SHIP by February 2025.[9] However, officials have acknowledged that the transition goals are aggressive.

Finding Summary

We found that the Postal Service audited and reviewed the subset of shippers with NSAs to assess whether they met contractual provisions such as volume commitments. However, the Postal Service failed to adequately monitor some non-contractual policy requirements for Parcel Select that apply to all shippers using the product. Parcel Select relies on a location-based pricing methodology, but the Postal Service did not establish operational controls or automated systems necessary to successfully identify incorrectly dropped packages for accurate revenue collection. Additionally, the Postal Service had not automated fee collection on oversized and overweight packages, provided additional handling instructions to local staff, and assessed its nonmailable fee policy to determine if it covers the cost of storage or delivery. In the future, the Postal Service could further enhance its NSA reviews and audits by incorporating policy compliance terms, such as dropshipment accuracy, which would promote compliance with the intended use of the Parcel Select product.

8 Our scope period was from October 2021 through July 2024. Package scan data were only available going back to October 2021.
9 88 Fed. Reg. 227 (Nov. 28, 2023).

Finding #1: Postal Service Evaluated Contract Commitments

Not all Parcel Select shippers have contracts, but those that do receive reduced rates and other special terms in exchange for bringing in a large volume of packages. We found that the Postal Service conducted quarterly reviews and audits to assess volume commitments and other provisions for its four largest Parcel Select agreements.

For these contracts, the Postal Service completed quarterly reviews of contract provisions. To do so, the Postal Service's Revenue Compliance team developed a "term library," which is a spreadsheet listing the relevant contract provisions for each agreement, ranging from volume targets to providing volume forecasts in advance. The team reviewed shipper performance under those provisions each quarter. For example, this included assessing whether volume commitments were met. The Postal Service also completed quarterly internal audits, led by the Revenue Evaluation team, that checked whether each customer's volume-based rates were correctly applied in the Postal Service's systems.

While these audits and reviews ensured volume commitments were met, expanding the reviews to incorporate some policy provisions could further promote compliance by large shippers.

Postal Service Response

Management agreed with the finding.

OIG Evaluation

The OIG considers management's comments responsive.

Finding #2: Failure to Detect Incorrect Dropshipment Location

The Postal Service failed to identify an estimated 45.4 million Parcel Select packages that were manifested to a specific DDU, but dropshipped at a different DDU or a plant during our scope period.[10] Postal Service policy[11] requires shippers to drop packages at specific locations close to the delivery point, and Parcel Select NSAs require shippers to comply with standard postal policies. Those unidentified mis-shipped packages did not qualify for Parcel Select pricing and should have received postage adjustments.[12] This occurred because the Postal Service lacked adequate controls to enforce its location-based dropshipment requirements.

- **Lack of DDU Automation.** DDUs lacked an automated process to identify packages that were dropped at the wrong location to then apply mis-shipped scans. While some DDUs used scanning equipment that could have identified mis-shipped packages and applied mis-shipped scans, the equipment was not programed to do so. Instead, the Postal Service designed a process that required DDU clerks to identify mis-ships and manually apply the scan, which triggered a postage adjustment. As a result, the Postal Service did not collect the additional postage owed for unidentified mis-ships and it added more manual processing time to the already heavy workloads of DDU clerks. While the Postal Service strategically shifted more volume from DDUs to plants, a significant portion of volume will likely still be dropped at DDUs. Post Office Operations team officials acknowledged the need to automate and said they had been working for over two years to automate scanning equipment to identify mis-shipped packages and apply the appropriate scan. That fix should help the Postal Service correctly identify more mis-shipped packages and reduce the burdens on DDU clerks.

- **Weak Mis-shipped Identification Procedures at Plants.** While the Postal Service verified that pallets were dropped correctly at plants, there were no mechanisms in place to identify individual DDU packages that were dropped at plants in error.[13] First, the clerks at plant docks were not tasked with screening for mis-shipped packages or applying acceptance scans, instead allowing mail processing equipment to apply the first scans, per its arrangement with the mailing industry. Second, the Postal Service did not program the PTR system to examine whether the location of the first scan on mail processing equipment matched the type of facility where the shipper indicated it would drop the package.[14] As a result, the Postal Service failed to collect the additional postage owed for packages manifested at the DDU rate but dropped at plants. Eventually, the Postal Service's goal is to require shippers to prepare their shipments and manifests in a way that links the packages to the pallet. This would allow Postal Service dock clerks to trigger acceptance scans for each package by scanning the pallet. However, there is no timeline for when that requirement will take effect. Shippers have opposed the change because they would have to make expensive changes to their processes. As the Postal Service shifts more Parcel Select packages to plants, it is critical that plants establish procedures and automate equipment and systems to identify mis-shipped packages. Given the larger role plants will play in the Postal Service's Parcel Select strategy, this additional layer of controls could ensure that the Postal Service receives the revenue it is owed.

10 The Postal Service received 74 million mis-shipped Parcel Select DDU packages during our scope period. Our model flagged 45.4 million (61 percent) as unidentified mis-ships. The Postal Service scanned an additional 28.6 million packages (39 percent) as mis-shipped during the same period. We did not determine the number of mis-shipped packages manifested at plant rates.

11 *Domestic Mail Manual*, sec. 253.4.1.4(c).

12 *Domestic Mail Manual,* sec. 705.2.4.3(c)3 and *Publication 205*, sec. 4.3.6.

13 Parcel Select shippers are not required to prepare their manifests and shipments in a way that links the individual packages to the pallets, a process known as "nesting." As a result, a scan of a pallet only confirms whether the pallet was dropped at the right facility, not whether the individual packages on the pallet belong at that facility.

14 The manifest lists the type of facility where the package will be dropshipped, such as a DDU or different types of plants. The rate the shipper paid is tied directly to the facility type.

- **Unreliable Indicators of Dropship Location.** The Postal Service programmed its system-generated acceptance scans in PTR in a way that does not reliably indicate where the Postal Service physically took custody of a package. Half of Parcel Select packages received system-generated start-the-clock acceptance scans, as opposed to physical scans.[15] We identified two key flaws with these system-generated scans:
  - We found in 8 percent of cases, PTR listed inaccurate location information for system-generated acceptance scans that did not match the ZIP Code where the package was actually dropped. This issue was particularly evident in Parcel Select packages paying plant rates, with 23 percent of system-generated acceptance scans showing the wrong ZIP Code.
  - The PTR system does not apply system-generated scans until packages are close to the correct dropship location as indicated in the manifest, even if the package is entered into the mailstream thousands of miles from that location. In some cases, this programming logic essentially allowed packages dropped far from the correct location to appear as though they were dropped at or near the right facility. For example, if a shipper indicated on the manifest that it would drop a package in Seattle, but actually dropped the package in Chicago, PTR did not trigger an acceptance scan until the package traveled through the postal network and reached a facility that was close to Seattle.

  If the Postal Service created a more reliable indicator in its tracking system of where the Postal Service took custody of a package, it could more effectively monitor dropshipment location compliance. We notified Postal Service officials of these problems in September 2024. As a result, the Postal Service initiated corrective action to redesign USPS SHIP's reliance on PTR's faulty acceptance scans as an indicator of where a package was dropped. After our meeting, officials stated they updated USPS SHIP's dropship location logic so that it no longer relies on system-generated scans. The faulty system-generated acceptance scans in PTR will appear on each package's tracking history, but USPS SHIP will not use them as the dropship location for payment calculation. However, the faulty system-generated acceptance scans could continue to create confusion for package recipients about their packages' location in the Postal Service network.

- **No Programming to Identify Mis-shipped Packages.** The Postal Service did not design an automatic process to identify mis-shipped packages and flag them for eVS postage adjustments.[16] As a result, the Postal Service did not collect all the postage it was owed for mis-shipped packages. Postal Service officials acknowledged eVS' weaknesses in identifying mis-ships and intended to remedy the issue with USPS SHIP, which was designed to identify packages dropshipped at the wrong facility and flag them for postage adjustments. If that system works as intended, it will fill a large gap in the Postal Service's ability to collect the revenue it is owed.

15 The analysis in this paragraph is based on the 65 million Parcel Select packages sent between May 25 and May 31, 2024.

16 For example, when a package receives a manual mis-shipped scan, eVS is programmed to automatically flag it. The Postal Service could have programmed PTR to identify packages that were dropped in the wrong location and automatically apply mis-shipped scans, which would trigger the eVS reconciliation process.

Although location-based pricing has been a hallmark of the Parcel Select product design and policy, the Postal Service's processes were unable to identify packages dropped at the wrong location. As a result, the Postal Service missed collecting an estimated $[redacted] million in additional postage owed between October 2021 and July 2024.[17] Without improvements, the Postal Service faces an additional $[redacted] million in revenue loss through May 2027.[18]

The Postal Service plans to use USPS SHIP to address these weaknesses, once all Parcel Select shippers migrate to the platform. The Postal Service could further strengthen this effort by improving identification of mis-shipments at DDUs and plants, which would temporarily address weaknesses in eVS until shippers migrate and provide an extra layer of control should USPS SHIP programming not fully address these issues after migration. Better controls would allow the Postal Service to identify mis-ships, charge the correct postage owed, and create a financial deterrent to repeated mis-shipment errors.

Recommendation #1

The **Vice President of Engineering Systems,** in coordination with the **Acting Vice President of Retail and Post Office Operations,** the **Vice President of Technology Applications** and the **Executive Director of Product Solutions** should program Destination Delivery Unit scanners to automatically identify mis-shipped packages dropped at the facility in error.

Recommendation #2

The **Vice President of Applied Engineering** should program the package tracking software to automatically apply mis-shipped scans to packages dropshipped at plants but manifested at a rate associated with a different type of facility.

Recommendation #3

The **Vice President of Processing Operations** should communicate procedures to identify containers of mis-shipped packages at plants until equipment or systems can identify these packages.

Recommendation #4

The **Vice President of Technology Applications,** in coordination with the **Vice President, Chief Data and Analytics Officer,** should develop a reliable software-based indicator that identifies where and when the Postal Service first took custody of a package.

Recommendation #5

The **Vice President of Technology Applications** should design and implement the USPS SHIP system to analyze package data that identifies Parcel Select packages dropped at the wrong location and flags them for additional postage due.

17 The OIG categorized the most recent 24 months ($[redacted]) as revenue loss, which is unrecoverable. Revenue loss applies to funds such as postage, retail sales, rent leases, or fees the Postal Service is entitled to receive but was underpaid or not realized because policies, procedures, agreements, or requirements were lacking or not followed.

18 The OIG analyzed 34 months of mis-shipped DDU packages (October 2021 to July 2024) to project revenue loss through May 2027, totaling [redacted].

Postal Service Response

Management agreed with recommendations 1, 3, 4, and 5 but disagreed with recommendation 2 and with portions of the monetary impact. Regarding the finding, management subsequently clarified in separate correspondence that it generally agreed with the finding. Management took issue with the report's inclusion of statements about flaws with system-generated acceptance scans that could make packages dropped far from the correct location appear as though they were dropped at or near the right facility. While management did not dispute the accuracy of those statements, it argued that they were irrelevant to a discussion of mis-shipped packages because USPS SHIP will determine dropship location by relying on the first physical scan of a package rather than the acceptance scan — a change that was made after the OIG pointed out the problems with relying on acceptance scans. The Postal Service also reiterated its strategy to drive more Parcel Select volume to plants instead of DDUs, and said effective January 1, 2025, it would no longer offer consolidators discounted rates through NSAs for packages dropped at DDUs. Management said it believes plants are better equipped than DDUs to identify mis-shipped packages.

Regarding recommendation 1, management will add functionality to DDU package scanners to apply mis-shipped scans, and to leverage those scans to assess postage adjustments. The target implementation date is September 30, 2025.

Regarding recommendation 2, management disagreed that it should program package-tracking software to automatically apply mis-shipped scans to packages dropped at a plant in error. Management argued that USPS SHIP will automatically perform a similar function, that the OIG's recommended change would be redundant and unnecessary, and that it would complicate the postage collection process.

Regarding recommendation 3, management has re-issued work instruction expectations to staff on scanning containers of packages as they enter plants to screen for containers dropped in the wrong location. Management provided a target implementation date of February 28, 2025, but also submitted documentation to support closure upon issuance of the audit report.

Regarding recommendation 4, management said it would evaluate its package acceptance logic for improvements in the way it generates acceptance scans when the first physical scan of a package on sortation equipment does not align with the manifest. The target implementation is June 28, 2025.

Regarding recommendation 5, management said it will continue to migrate customers to USPS SHIP and that it will evaluate the program's logic to ensure it is optimal for detecting and assessing mis-shipped packages. The target implementation date is February 1, 2026.

Regarding the monetary impact for mis-shipped packages, management agreed with the historical $[redacted] million in revenue loss, but disagreed with the forward-looking $[redacted] million in potential revenue loss, arguing that customers will migrate to the USPS Ship Platform, and the volume of DDU packages will decline. This decline will result from management's efforts to drive consolidators to enter packages at approved drop ship locations aligned to optimize the network of plants. It also stated that plants will have better mechanisms in place than DDUs to identify mis-shipped packages.

OIG Evaluation

Regarding recommendations 1, 3, 4, and 5, the OIG considers management's comments responsive, and the corrective actions should resolve the issues identified.

Regarding recommendation 2, management argued that eVS/USPS SHIP are the exclusive mechanisms for identifying and flagging mis-shipped packages as they move through the network. However, this argument is inconsistent with the Postal Service's recent and planned actions to program scanning and sorting equipment at DDUs to automatically apply mis-shipped scans. Those actions acknowledge the value of additional layers of controls to ensure that the Postal Service collects all the revenue it is owed. It is in that spirit that we recommended additional controls at plants to identify and flag mis-shipped packages, especially considering the strategic drive to move consolidators to drop ship at plants. Also, USPS SHIP is a new system operating in a highly complex and dynamic environment in which hundreds of millions of dollars in postage are at stake. If USPS SHIP does not perform exactly as planned, the additional layer of control we recommended would be fully automated to detect postage deficiencies. We view the disagreement on the recommendation as unresolved and will pursue it through the formal audit resolution process.

Regarding the forward-looking monetary impact calculation for mis-shipped packages, the Postal Service provided us with internal forecasts on the volume of packages that will leave the DDU stream in the years ahead, as consolidators are incentivized to drop all Parcel Select packages at plants instead of DDUs. However, the OIG could not rely on the Postal Service's forecasts for several reasons:

- The time-period was too short. The Postal Service's analysis relied on assumptions based on the changes in shipping patterns for two consolidators over eight weeks in the immediate aftermath of contractual changes that incentivized the consolidators to stop dropping packages at DDUs.
- Insufficient detail. Their 34-month forecast was based on only two customers during an eight-week period of tremendous volatility and is highly unreliable. Additionally, we analyzed the increasing number of mis-shipped packages and the declining additional postage owed per package over time, combining these to estimate the monetary impact. In contrast, Postal Service analysis relied on broad assumptions that did not account for separate trends in volume and additional postage owed.
- Did not account for published rates. While published rate-shippers make up a small portion of Parcel Select's volume overall, they account for a relatively large portion of mis-shipped packages.

Finding #3: Postal Service Delivered Packages That Exceeded Weight and Dimension Limits

The Postal Service's system indicates that it delivered 80,781[19] Parcel Select packages dropped at DDUs that shippers manifested as overweight or oversized during our scope period.[20] According to Postal Service policy, packages cannot weigh more than 70 pounds or exceed a dimension of 130 inches (length plus girth).[21] Any packages surpassing these limits are considered nonmailable and should be held for pickup by the mailer or addressee for 14 days, after which the packages are considered abandoned and can be disposed of at the Postal Service's discretion. If the Postal Service moves the packages to another facility or delivers them, local staff must assess a $100 fee[22] and initiate collection.

Deliveries of nonmailable packages occurred because Postal Service policies regarding overweight and oversized packages were not enforced. Specifically:

- **Local Staff Need Handling Instructions.** Nationwide, local staff collected the applicable fee for overweight and oversized packages only 5,027 times (6.2 percent of its system total). Personnel at the 20 DDUs we visited across four districts were generally aware of the policy to hold overweight or oversized packages for pickup and collect the fee. Although management provided instructions to collect fees for nonmailable packages, the process is infrequent and requires judgment that is prone to human error. Further, management and staff at these units also made delivering all packages one of their highest priorities, and without an automated process, they incorrectly delivered items without collecting fees.

  Additionally, the Postal Service did not provide specific instructions for identifying, measuring, and further handling of these packages. Staff generally relied on visual inspection to determine whether packages exceeded the mailable limits, which may have caused some to be incorrectly delivered because of errors in judgment in estimating the size or weight (see Figure 3). Without clearer instructions about how to enforce the policy, overweight or oversized packages dropped at DDUs may be more likely to be delivered.

Figure 3. Oversized Package at DDU

Source: OIG photo from Anniston Main Post Office, 5/16/2024.

19 We discovered an anomaly in the data from January to July 2024, showing a significantly higher number of oversized packages compared to the rest of the analysis period. The Postal Service was first notified of the anomaly on July 11, 2024. Following the issuance of the draft report, the Postal Service provided the corrected figures. We have updated the report accordingly to reflect this new information. However, it is important to note this anomaly was only discovered and resolved after our initial notification to the Postal Service.

20 We used weight and dimensions shippers reported in manifests. Therefore, any overweight or oversized packages shippers did not report accurately are not included in our figure.

21 *Domestic Mail Manual*, 601 Mailability, 1.2 Overweight or Oversize Items, 1.2.1 Description.

22 Except for an overweight or oversized item discovered and picked up at the same facility where it was entered, the overweight/oversized item fee of $100 will be assessed and must be paid before release of the item. *Domestic Mail Manual*, 601 Mailability, 1.2 Overweight or Oversize Items, 1.2.3 Fee.

- **Fee Policy Needs Evaluation.** Postal Service policy allows for the package to be picked up to avoid a fee but does not allow the Postal Service to dispose of the item until it has been held for 14 days. Holding items of this size for that length of time can create operational issues. These packages may occupy disproportionate space in delivery units and pose issues, especially in small offices where space constraints can impede operational efficiency. The resulting crowded conditions could hinder clerks and carriers in performing their duties, as they must find space for and navigate around large packages.

  Postal Service staff acknowledged that they intended the fee to deter shippers from noncompliance with policy. While they did market research regarding similar competitor fees, they did not conduct a cost analysis to support whether its $100 fee was enough to recover the costs of delivering overweight and oversized packages, which may require separate trips or "team lifts."[23] Specifically, oversized packages may not fit into standard delivery vehicles or rural carrier's personal vehicles, requiring the carriers to make additional trips and potentially cause overtime costs. Improper acceptance and delivery of packages exceeding weight and dimension limits could also lead to potential injury risks[24] — these packages may require a team lift when packages are too heavy for a single person — but staff at the offices we visited said they did not always employ a team lift when they should due to staffing and time constraints. Carriers also cannot perform a team lift while delivering their routes unless they were to wait for another employee to arrive, which is operationally impractical. The Postal Service said it is considering increasing its overweight/oversized fee in January 2025 to further deter shippers.

Because the Postal Service accepted and delivered overweight and oversized packages and did not always collect the associated fee, it lost an estimated $7.6 million in fees owed between October 2021 and July 2024.[25] Without improvements, the Postal Service faces an additional $4.7 million revenue loss through May 2027.[26] By providing sufficient financial and policy deterrents for nonmailable packages, the Postal Service can also mitigate operational challenges, potential overtime costs, and safety risks that harm employees.

Recommendation #6

The **Vice President of Delivery Operations**, in coordination with the **Vice President of Retail and Post Office Operations,** the **Vice President of Engineering Systems,** the **Vice President of Technology Applications,** and the **Executive Director of Product Solutions** should enforce the nonmailable package fee collection policy by implementing an automated fee collection system for nonmailable packages dropped at Destination Delivery Units, or implementing an alternative solution.

Recommendation #7

The **Vice President of Delivery Operations,** in coordination with the **Vice President of Retail and Post Office Operations**, should issue clear instructions to delivery units regarding how to identify and handle packages over mailable limits.

Recommendation #8

The **Vice President of Pricing and Costing** in coordination with the **Executive Director of Product Solutions** should evaluate whether the $100 overweight/oversized fee policy is sufficient to deter shippers from dropping nonmailable packages.

23 Standard Work Instruction, *Heavy Packages – Delivery to Customer.* October 6, 2022.
24 In September 2022, an OIG report concluded that parcel volume growth resulted in carriers handling and delivering heavier packages, including more packages that exceeded the Postal Service's maximum allowable weight. There was a statistically significant association between package volume and weight growth and carrier injuries. RISC-WP-22-009, p. 17.
25 The most recent 24 months ($4,815,200) are categorized as Revenue Loss, which is unrecoverable.
26 The OIG analyzed 34 months of overweight and oversized packages (October 2021 to July 2024) to forecast revenue loss of $4,708,171 through May 2027.

Postal Service Response

Management agreed with recommendations 6, 7, and 8, and with portions of the monetary impact. Regarding the finding, although management initially raised concerns with our data reporting and monetary impact forecasting, it subsequently clarified that it agreed with the finding. In addition, management requested the removal of one of the footnotes in the report as the data discussed in the footnote was subsequently provided to the OIG.

Regarding recommendation 6, management will evaluate automating the collection process for nonmailable fees. The target implementation date is November 30, 2025.

Regarding recommendation 7, management reissued clear instructions on identifying and handling nonmailable packages at DDUs. Management provided a target implementation date of December 31, 2024, but also submitted documentation to support closure upon issuance of the audit report.

Regarding recommendation 8, management said it proposed to increase the fee for overweight and oversized packages to $200 as a deterrent, stating that the higher amount is in line with the fees charged by competitors. The target implementation date is April 28, 2025.

Regarding the monetary impact for overweight and oversized packages, management agreed with the OIG's revised historical amount of $4.8 million. Management disagreed with the forward-looking amount of $4.7 million, providing an alternative projection that considered a variety of software and process changes that the Postal Service said will dramatically decrease the number of packages manifested at weights and dimensions that exceed the mailable limits.

OIG Evaluation

Regarding recommendations 6, 7, and 8, the OIG considers management's comments responsive, and the corrective actions should resolve the issues identified.

Regarding the removal of the footnote, we acknowledge the receipt of this data and have updated footnote 19 accordingly. Specifically, the Postal Service was first notified of the anomaly July 11, 2024, during the course of the audit. Following the issuance of our draft report, the Postal Service provided the corrected figures.

Regarding the forward-looking monetary impact for oversized and overweight packages, the Postal Service's methodology does not align with the OIG's policies for monetary impact, which call for us to calculate future monetary impact on the assumption that historical trends continue without the Postal Service making changes to correct them. Additionally, we are uncertain whether the implemented changes will resolve the issue or when those proposed changes may happen.

Looking Forward

As mentioned in our report, the Postal Service announced changes to Parcel Select during our audit with the intent to modernize its network and align its product and pricing strategies. As a result, consolidators will be incentivized to bring volume directly to plants, shifting Parcel Select volume to enter earlier in the mailstream. As shippers receive new contracts and shift their dropshipping patterns, it will be important for the Postal Service to enhance its oversight. Although the Postal Service has based its Parcel Select contracts largely on volume commitments, its contracts broadly require shippers to comply with all Postal Service policies. The Postal Service could enhance its oversight by incorporating critical policies for its Parcel Select product into its contract reviews, which would also help ensure that its product is being used by these largest shippers as intended. As shippers and staff adjust to changes for the Parcel Select product and transition to the USPS SHIP platform, it affords the Postal Service an opportunity to reevaluate controls around its location-based rate products to ensure it protects revenue for this critical product.

Appendices

Appendix A: Additional Information

Scope and Methodology

Our audit scope for mis-shipped and overweight/oversized packages was Parcel Select packages shipped from October 2021 through July 2024. For contract compliance, our scope included Parcel Select NSAs for the four largest Parcel Select shippers in FY 2023. To accomplish our objective, we:

- Analyzed monthly data samples of the 9 billion Parcel Select DDU packages sent during our scope period to identify packages that were dropped in the wrong location. We also analyzed the full population of DDU packages that were manifested at weights and sizes that exceeded mailable limits.
- Reviewed and analyzed monthly reconciliations for mis-shipped packages.
- Analyzed data on the 65 million Parcel Select packages sent between May 25 and May 31, 2024, to determine the portion with system-generated acceptance scans and how often the drop locations for those scans were inaccurate.
- Reviewed Postal Service policies and standard work instructions related to overweight/oversized parcels and mis-shipped packages at DDUs and plants.
- Interviewed Postal Service officials about the identification and processing of mis-shipped packages at DDUs and plants, the identification and handling of overweight/oversized parcels, and the logic built into the Postal Service's system-generated scans.
- Performed site visits at 20 judgmentally selected DDUs where we observed the acceptance of Parcel Select packages and interviewed postal service supervisors and clerks.
- Reviewed NSAs for the largest Parcel Select shippers, as well as documentation of the Postal Service's oversight of those contracts.
- Interviewed Postal Service officials about their oversight of Parcel Select NSAs.

We conducted this performance audit from April 2024 through December 2024 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on November 15, 2024, and included their comments where appropriate.

In planning and conducting the audit, we obtained an understanding of the contractual and policy requirements, internal control structure, and revenue collection for processing Parcel Select packages, to help determine the nature, timing, and extent of our audit procedures. We reviewed the management controls for overseeing the program and mitigating associated risks. Additionally, we assessed the internal control components and underlying principles, and we determined that the following four components were significant to our audit objective: control activities, risk assessment, information and communication, and monitoring.

We developed audit work to ensure that we assessed these controls. Based on the work performed, we identified deficiencies related to control activities, information and communication, and monitoring that were significant within the context of our objectives. Our recommendations, if implemented, should correct the weaknesses we identified.

We assessed the reliability of computer-generated data from the Postal Service's PTR and eVS systems by reviewing and analyzing the package scan data and interviewing Postal Service officials. We determined that the data were sufficiently reliable for the purposes of this report. During our audit, we identified an anomaly related to oversized packages from January to July 2024. We raised this issue with Postal Service officials who identified a system patch error and corrected the issue.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
Changes in Mail Mix: Implications for Carriers' Physical Health	Determine whether there is a correlation between carrier injuries and changes in mail mix, specifically changes in package volume and weight and assess the Postal Service's guidance, training, policies, and procedures for carriers handling of packages.	RISC-WP-22-009	09/26/22	$0
Shipping Services Compliance Contract	Assess contractual compliance and oversight of the Parcel Select shipping services contract.	20-315-R22	10/19/21	[redacted]
Negotiated Service Agreement [redacted]	Determine mailer compliance with Negotiated Service Agreement (NSA) provisions and evaluate the U.S. Postal Service's oversight of NSA Contract [redacted].	20-233-R21	05/13/21	[redacted]
Negotiated Service Agreement [redacted]	Determine mailer compliance with Negotiated Service Agreement (NSA) provisions and evaluate the U.S. Postal Service's oversight of NSA Contract [redacted].	20-317-R21	05/19/21	$0
Partnership Agreement Compliance	Determine compliance with agreement provisions and to determine whether opportunities exist to enhance agreement provisions. We reviewed selected provisions from the January 2016 agreements based on their impact on Postal Service revenue, customer commitments, and the protected interest of the Postal Service.	19BG004FT000-R20	12/27/19	$0

Appendix B: Management's Comments

UNITED STATES POSTAL SERVICE

12/09/2024

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: Postal Service Oversight of Parcel Select (24-044-DRAFT)

Thank you for providing the Postal Service with an opportunity to review and comment on the findings and recommendations contained in the draft audit report, *Postal Service Oversight of Parcel Select.*

Finding #1: Postal Service Evaluated Contract Commitments- no recommendations from this finding however the OIG states USPS should include compliance with shipping requirements in the quarterly business reviews with customers.
Management agrees with this finding.

Finding #2: Failure to detect incorrect drop shipment location- the OIG states the USPS does not identify shipments dropped at the wrong location efficiently resulting in revenue loss.

OIG statement: "Unreliable Indicators of Dropship Location. The Postal Service programmed its system-generated acceptance scans in PTR in a way that does not reliably indicate where the Postal Service physically took custody of a package. The PTR system does not apply system-generated scans until packages are close to the correct dropship location as indicated in the manifest, even if the package is entered into the mailstream thousands of miles from that location. In some cases, this programming logic essentially allowed packages dropped far from the correct location to appear as though they were dropped at or near the right facility. For example, if a shipper indicated on the manifest that it would drop a package in Seatle (sic), but actually dropped the package in Chicago, PTR did not trigger an acceptance scan until the package traveled through the postal network and reached a facility that was close to Seatle (sic)."

Whereas we agree that we will re-evaluate our logic for determining the acceptance location of a package, the Chicago/Seattle example presented above is irrelevant to determine whether the package was entered at the right location for drop-shipped Parcel Select.

For drop-ship Parcel Select entry volume, neither eVS or USPS Ship uses logic based on a scan being flagged as an 'acceptance' scan. eVS relies on a clerk scanning the piece as mis-shipped with a handheld device, a DSS, or a PASS machine. In USPS Ship, the first scan, typically an arrival at unit scan for DDU entered volume, is used to determine if a piece is entered at the correct location. That first scan is compared to the Mail Direction File to determine if the piece is at an appropriate facility. We will evaluate the logic and data to determine if any improvements can be made to identify mis-shipped packages.

The Postal Service is implementing a strategy that will significantly improve the drop ship product offering. We are largely driving consolidators to enter packages at approved drop ship locations aligned to our optimized network of LPCs and SDCs. These facilities have SOPs as well as equipment to process and provide acceptance visibility. We believe this will improve our ability to identify and detect where a package is entered and improve our ability to assess mailers when a package is entered at the wrong location.

OIG statement: As a result, the Postal Service missed collecting an estimated $[redacted] million in additional postage owed between October 2021 and July 2024. Without improvements, the Postal Service faces an additional $[redacted] million in revenue loss through May 2027. The OIG categorized the most recent 24 months ($[redacted]) as revenue loss, which is unrecoverable. The OIG analyzed 34 months of mis-shipped DDU packages (October 2021 to July 2024) to project revenue loss through May 2027, totaling $[redacted]

We agree with the OIG assessment of $[redacted]M loss from mis-shipped packages from Oct 2021- July 2024. We disagree with the projected revenue loss of $[redacted]M through May 2027 due to the reduced volume expected to be entered at DDUs, and customer migration to the USPS Ship Platform.

The USPS is implementing a strategy for package consolidators or companies that enter large volumes of packages for entry into various points of the USPS network. Effective January 1, 2025, the Postal Service will no longer offer discounted rates through Negotiated Service Agreements (NSAs) for packages entered by consolidators at Post Office Delivery Units. We are largely driving consolidators to enter packages at approved drop ship locations aligned to our optimized network of LPCs and SDCs. These facilities have SOPs as well as equipment to process and provide acceptance visibility. We believe this will improve our ability to identify and detect where a package is entered and improve our ability to assess mailers when a package is entered at the wrong location.

<u>Finding #3</u>: Postal Service Delivered Packages that Exceeded Weight and Dimension Limits which resulted in the Postal Service not assessing the $100 fee and/or returning the nonmailable package to the customer.

OIG footnote #21: "21 We discovered an anomaly in the data from January to July 2024, showing a significantly higher number of oversized packages compared to the rest of the analysis period. As a result, this figure overstates the number of overweight and oversized packages delivered. We notified the appropriate Postal Service officials about the discrepancy, who attributed it to a system error. However, as of October 23, 2024, the Postal Service has yet to provide the corrected figures for the oversized packages"

Management requests that Footnote #21 be removed as the Postal Service has provided the data. In addition, the following and below represents our comprehensive analysis on unrecoverable loss and recoverable loss.

USPS identified 276k packages in EDW with non-mailable dimensions from January 2024 – November 2024. Of those packages, 262k packages either did not have a manifest file (71k) or had manifest attributes that did not meet the non-mailable requirements (191k). For example, our EDW system showed data with 999 as a dimension where the shipper manifest did not provide dimensions.

13,737 packages were manifested with oversize or overweight measurements where the $100 fee was not collected. These manifest data issues were caused by a software issue on the customer's side introduced in January and resulted in a historical loss of $1.3M (January 2024 – July 2024). Since the software issue was corrected in September, there have been 8 packages exceeding the oversize/overweight measurements. Going forward, recoverable loss is estimated at 3 package per month, or $9,800 from September 2024- May 2027.

While the OIG acknowledged that the Postal Service is implementing new technology to automatically collect the $100 fee, it projected recoverable revenue through May of 2027 at $4.8M. We disagree and believe this should be $68K through May 2027 with $58K from August 2024-January 2025 and $9.8K after February 2025 once customers migrate to USPS Ship and are automatically be assessed the $100, totaling $68k in recoverable revenue.

<u>Monetary Impact Analysis</u>
Estimating Total Amount Owed for Past Overweight or Oversized Packages - The OIG states the Postal Service delivered packages that were overweight or oversized (non-mailable). The OIG states there was a revenue loss of $4.8M from Oct 2021 through July 2024, and projects an additional loss of $4.8M through May 2027.

Management disagrees with the calculated recoverable and nonrecoverable revenue loss estimates. Based on the timeframe analyzed for unrecoverable revenue, our analysis results in $1.4M loss due to removal of false positives and system issues. Our methodology and findings are below, resulting in a recoverable amount of $68K.

Revenue Loss: Unrecoverable: Management provided corrected data to the OIG that resulted in a $50K variance in the amounts initially reported by the OIG. OIG concurs and will update.

Revenue Loss: Recoverable: Management recalculated the projected recoverable loss through the implementation date of USPS Ship (February 2025). USPS Ship collects overweight/oversize fees. Ultimately, reducing the scope by 26 months from February 2025 to May 2027 will result in a reduced number of pieces-at-risk by 45K (down to 580 pieces) and a reduced revenue impact of almost $4.5M (down to $58K).

Corrected data for Revenue Loss: Recoverable

Month	Unmovable Volume	Unmovable Fee
August 2024 (Actual)	566	$56,600
September 2024 (Actual)	6	$600
October 2024 (Actual)	1	$100
November 2024 (Actual)	1	$100
December 2024 - January 2025 (Projected)	6	$600
Total	580	$58,000

In addition to the concerns stated above for each of the three findings, our comments for each of the 8 recommendations are below:

Recommendation 1:
The Vice President of Engineering Systems, in coordination with the Acting Vice President of Retail and Post Office Operations, the Vice President of Technology Applications and the Executive Director of Product Solutions should program Destination Delivery Unit scanners to automatically identify mis-shipped packages dropped at the facility in error.

Management Response/Action Plan: Management agrees with this recommendation.

The DSS and PASS units have added additional functionality to identify mis-shipped packages. The MDD devices have been equipped with a scan event code that allows postal employees to scan a package as mis-shipped. All scan events will be leveraged to automatically detect and assess on mis-shipped packages.

Further, both USPS Ship and eVS currently calculate postage due for packages dropped at the wrong location. While eVS requires identification by USPS personnel of mis-shipments and an appropriate mis-ship scan to be performed, USPS Ship assesses scan data from mail processing equipment as well as manifest information to make this assessment. As shippers migrate to the USPS Ship platform and move away from our legacy eVS platform, Parcel Select packages dropped at the wrong location will be flagged and assessed for additional postage due without the manual mis-shipped scan. Current mis-shipped logic will be evaluated to ensure logic is optimal.

Target Implementation Date: 09/30/2025

Responsible Official: VP, Technology Applications/VP, Engineering Solutions

Recommendation 2:
The Vice President of Applied Engineering should program the package tracking software to automatically apply mis-shipped scans to packages drop shipped at plants but manifested at a rate associated with a different type of facility.

Management Response/Action Plan: **Management disagrees with this recommendation.**

The package tracking system is used to provide visibility into packages as they move through the network. The function of detecting and applying mis-shipped scans to packages and assessing correct postage is the function of eVS/USPS Ship. The suggested approach would not only be redundant and unnecessary, but it would also greatly increase the work and complexity of correctly assessing and collecting additional postage.

Both USPS Ship and eVS currently calculate postage due for packages dropped at incorrect facilities. While eVS requires identification by USPS personnel of mis-shipments and an appropriate mis-ship scan to be performed, USPS Ship assesses scan data to make this assessment.

Target Implementation Date: N/A

Responsible Official: N/A

Recommendation 3:
The Vice President of Processing Operations should communicate procedures to identify containers of mis-shipped packages at plants until equipment or systems can identify these packages.

Management Response/Action Plan: Management agrees with this recommendation.

A process exists to address containers of Parcel Select that are entered/dropped at the incorrect location. Management agrees to re-issue the expectations for checking and handling if containers are dropped at the wrong location. Documentation submitted to OIG was responsive to Recommendation 3, thus management requests closure with issuance of the final report.

Target Implementation Date: 2/28/25

Responsible Official:
Vice President of Processing Operations

Recommendation 4:
The Vice President of Technology Applications, in coordination with the Vice President, Chief Data and Analytics Officer, should develop a reliable software-based indicator that identifies where and when the Postal Service first took custody of a package.

Management Response/Action Plan: Management agrees with this recommendation.

The USPS currently identifies when the Postal Service first took custody of a package through various channels. Acceptance scans are currently performed for packages dropped at retail counters, self-service kiosks to include rapid drop stations or through carrier pick-up. If dropped at a blue box, parcel drop-box at the lobby, or through dropship appointments, the packages is typically first scanned when processed on package sortation equipment. When other information (such as manifest information) aligns with the scans on package sortation equipment, the Postal Service generates an acceptance event. Current acceptance event logic will be evaluated for improvements in generating an acceptance scan when the first scan on package sortation equipment does not align with the manifest.

Target Implementation Date: 06/28/2025

Responsible Officials:
Vice President of Technology Applications, Vice President, Chief Data and Analytics Officer

Recommendation 5:
The Vice President of Technology Applications should design and implement the USPS SHIP system to analyze package data that identifies Parcel Select packages dropped at the wrong location and flags them for additional postage due.

Management Response/Action Plan: Management agrees with this recommendation.

Both USPS Ship and eVS currently calculate postage due for packages dropped at the wrong location. While eVS requires identification by USPS personnel of mis-shipments and an appropriate mis-ship scan to be performed, USPS Ship assesses scan data from mail processing equipment as well as manifest information to make this assessment. We will work to continue to migrate customers to USPS Ship to avail of the stronger logic for mis-shipped detection. We will evaluate the logic to ensure it is optimal at detecting and assessing mis-shipped.

Target Implementation Date: 02/01/2026

Responsible Official:
Vice President of Technology Applications

Recommendation 6:
The Acting Vice President of Delivery Operations, in coordination with the Acting Vice President of Retail and Post Office Operations, the Vice President of Engineering Systems, the Vice President of Technology Applications, and the Executive Director of Product Solutions should enforce the nonmailable package fee collection policy by implementing an automated fee collection system for nonmailable packages dropped at Destination Delivery Units or implementing an alternative solution.

Management Response/Action Plan: Management agrees with this recommendation

Management will evaluate the collection process to see if the nonmailable fee can be effectively automated.

Target Implementation Date: 11/30/2025

Responsible Officials:
The Executive Director of Product Solutions, the Vice President of Engineering, and the Vice President of Technology Applications

Recommendation 7:
The Acting Vice President of Delivery Operations, in coordination with the Acting Vice President of Retail and Post Office Operations, should issue clear instructions to delivery units regarding how to identify and handle packages over mailable limits.

Management Response/Action Plan: Management agrees with this recommendation.

Management has reissued clear instructions to Delivery Units on how to identify and handle packages over mailable limits and provided documentation sufficient to Close at Issuance. Management requests to close this recommendation with issuance of the OIG's final report.

Target Implementation Date: 12/31/2024

Responsible Official:
Acting Vice President of Delivery Operations, in coordination with the Acting Vice President of Retail and Post Office Operations

Recommendation 8:
The Vice President of Pricing and Costing in coordination with the Executive Director of Product Solutions should evaluate whether the $100 overweight/oversized fee policy is sufficient to deter shippers from dropping nonmailable packages.

Management Response/Action Plan: Management agrees with this recommendation.

The $100 fee has been analyzed and the Overweight/Oversize fee is proposed to increase from $100 to $200 as a deterrent to mailers from inducting nonmailable items, as the $100 fee has not provided enough deterrent.
Competitors like FedEx and UPS charge anywhere between $160 to $240 per package.

Target Implementation Date: 04/28/2025

<u>Responsible Officials:</u>

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Vice President Processing Operations

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Margaret Pepe
Executive Director Product Solutions

cc: *Corporate Audit & Response Management*

This document contains sensitive information that has been redacted for public release. These redactions were coordinated with USPS and agreed to by the OIG.

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