

# GAO Highlights

Highlights of [GAO-15-408](#), a report to the Ranking Member, Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

USPS faces significant financial challenges. Parcel Select is a key USPS package shipping product to help address these challenges, with revenues growing from \$466 million to over \$2.5 billion from fiscal year 2009 through fiscal year 2014. As of April 3, 2015, USPS has executed 13 Parcel Select NSAs—customized contracts that lower mailers' shipping prices in exchange for meeting volume targets and other requirements. GAO was asked to review how USPS manages these contracts.

GAO examined (1) USPS's procedures to manage Parcel Select NSAs and (2) its method to determine attributable cost coverage for each contract. To perform this work, GAO reviewed relevant laws and regulations; analyzed documents for all 13 contracts; compared USPS's procedures against selected leading contract management practices most applicable to USPS's role; and interviewed USPS and PRC officials and representatives from 8 mailers that signed 12 of the 13 contracts.

## What GAO Recommends

GAO recommends that USPS update its standard procedures to address gaps in documentation requirements and contract management responsibilities. Also, USPS should identify cost-effective methods to collect and study information on delivery costs for Parcel Select packages of varying characteristics to develop contract-specific attributable cost estimates. USPS agreed with these recommendations, but stated that the cost impact of package size and weight is likely small given where these packages enter the mail stream.

View [GAO-15-408](#). For more information, contact Lori Rectanus at (202) 512-2834 or [rectanusl@gao.gov](mailto:rectanusl@gao.gov).

April 2015

## U.S. POSTAL SERVICE

### Improved Management Procedures Needed for Parcel Select Contracts

## What GAO Found

In June 2014, the U.S. Postal Service (USPS) established standard procedures that departments should follow to manage all negotiated service agreement (NSA) contracts, including Parcel Select NSAs. Although the procedures, in part, address some leading contract management practices, such as defining performance management activities, they lack documentation requirements and clearly defined management responsibilities for some activities. For example, the procedures do not require USPS to document some key management decisions, such as USPS's decision to forego additional revenue when a mailer did not ship a minimum volume of packages, as contractually required. Documenting such information could improve future decision making and enhance accountability for the effective and efficient use of USPS resources. USPS acknowledged that the procedures contained gaps when they were initially established. Reviewing and updating the standard procedures to include documentation requirements and clearly defined management responsibilities would provide additional assurance that USPS's Parcel Select NSAs are effectively managed.

USPS's costing method for Parcel Select NSAs does not account for package size or weight or use contract-specific cost estimates. Each Parcel Select NSA is required to earn sufficient revenues to cover USPS's costs—referred to as “attributable costs” in the postal context. The Postal Regulatory Commission (PRC), which annually reviews compliance, determined that each contract met this requirement. However, USPS's analysis of attributable costs for Parcel Select NSAs is limited, because USPS has not studied the impact of package size or weight on specific contracts or developed contract-specific cost estimates.

- *Package size and weight information:* USPS does not collect information on the size of NSA packages and has not studied the impact of package size and weight on USPS's delivery costs for specific contracts. However, larger and heavier packages can increase USPS's costs. For example, carriers must walk packages that are too large for a centralized mailbox to the customer's door, which increases costs. Moreover, mailers use size and weight to inform their own business decisions. For example, one mailer continually assesses package size and weight to make cost-effective decisions about the delivery method it chooses. If mailers route larger or heavier packages via Parcel Select, collecting and studying such information could improve USPS's analysis of attributable costs for Parcel Select NSAs.
- *Contract-specific cost estimates:* USPS's method to determine attributable costs uses average cost estimates for the Parcel Select product instead of contract-specific cost estimates. USPS's use of averages further limits its analysis of the extent to which each Parcel Select NSA covers its attributable costs, because USPS had not studied the extent to which the size and weight of packages shipped under individual contracts deviated from the characteristics of packages USPS used to estimate the average.

USPS officials questioned whether the benefits of developing contract-specific cost estimates would exceed the costs; however, USPS has used less intensive methods, such as sampling, to improve estimates for other products in the past.