

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF DAVID B. POPKIN  
(DBP/USPS-264)

The United States Postal Service hereby provides its response to the following interrogatory of David B. Popkin, filed on July 11, 2006: DBP/USPS-264.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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August 15, 2006

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF DAVID B. POPKIN

DBP/USPS-264

Pease furnish a copy of the Office of the Inspector General's Report DR-AR-05-017 that relates to Balloon Rate and Parcel Surcharges and Report IS-MA-06-001 that relates to Security Over Sensitive Customer Data on Automated Postal Center Kiosks. If it is filed as a Library Reference, please furnish me with a hard copy.

RESPONSE:

A redacted version of Report DR-AR-05-017 that has been made public is attached.

According to the Office of the Inspector General, the other report cannot be released publicly, due to the nature of the subject.



September 29, 2005

ELLIS A. BURGOYNE  
VICE PRESIDENT, DELIVERY AND RETAIL

SUBJECT: Audit Report - Balloon Rate and Parcel Surcharges  
(Report Number DR-AR-05-017)

This report presents the results of our self-initiated audit of Balloon Rate and Parcel Surcharges (Project Number 05YG016DR000). The overall objective was to evaluate whether the Postal Service received the correct revenue for Priority Mail and Parcel Post packages from retail sales. Specifically, we determined whether retail associates were properly assessing the balloon rate surcharges on Priority Mail and Parcel Post packages. We also determined whether retail associates were properly assessing the nonmachinable and oversized surcharges on Parcel Post packages. The Office of Inspector General (OIG) is completing a management advisory report that will provide suggestions on how to improve the Postal Service's current process for assessing surcharges.

The [REDACTED] Districts did not always collect the correct revenue from surcharges on Priority Mail and Parcel Post packages. Specifically, retail associates did not properly assess balloon rate, nonmachinable, and oversized surcharges on 234 of 254 packages reviewed. Although retail associates have been trained to assess surcharges, the current training does not include hands-on demonstrations to show retail associates how to properly measure packages. Further, the retail associates stated they infrequently handled packages requiring surcharges. As a result, the [REDACTED] District offices missed potential additional revenue of \$24,600 for non-assessment of balloon rate, nonmachinable, and oversized surcharges for a two-week period. This represents potential additional revenue and we will report it as such in our Semiannual Report to Congress.

We modified our recommendation based on management's comments. We recommended the vice president, Delivery and Retail, instruct the manager, Customer Service Operations, to establish a training method to ensure retail associates understand how to properly measure length and girth to accurately assess balloon rate, nonmachinable, and oversized surcharges.

Management's comments are responsive to our finding and recommendation. Management's planned corrective action to develop on-line training for retail associates should correct the issues identified in the finding. Management's comments and our evaluation of these are included in this report.

The OIG considers recommendation 1 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation the recommendation can be closed.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Rita F. Oliver, Director, Delivery and Retail, or me at (703) 248-2300.

/s/ Mary W. Demory

Mary W. Demory  
Deputy Assistant Inspector General  
for Core Operations

#### Attachments

cc: William P. Galligan  
Frederick J. Hintenach  
Alexander Lazaroff  
Frank Neri  
Keith J. Beppler  
Steven R. Phelps

## TABLE OF CONTENTS

<b>Executive Summary</b>	i
<b>Part I</b>	
<b>Introduction</b>	1
Background	1
Walk-in Revenue Received for Parcel Surcharges	2
Requirements for Measuring and Weighing Packages	3
Balloon Rate, Nonmachinable, and Oversized Surcharges	4
Objectives, Scope, and Methodology	4
Prior Audit Coverage	6
<b>Part II</b>	
<b>Audit Results</b>	7
Balloon Rate and Parcel Surcharges	7
Surcharges Not Properly Assessed	7
Training	8
Recommendation	9
Management's Comments	9
Evaluation of Management's Comments	9
<b>Appendix A.</b> [REDACTED]	10
<b>Appendix B.</b> Statistical Sampling and Projections	12
<b>Appendix C.</b> OIG Calculation of Potential Additional Revenue	15
<b>Appendix D.</b> Management's Comments	16

## EXECUTIVE SUMMARY

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### Introduction

This report presents the results of our self-initiated audit of balloon rate and parcel surcharges. The overall objective was to evaluate whether the Postal Service received the correct revenue for Priority Mail and Parcel Post packages from retail sales.

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### Results in Brief

The [REDACTED] Districts did not always collect the correct revenue from surcharges on Priority Mail and Parcel Post packages. Specifically, the districts did not properly assess balloon rate, nonmachinable, and oversized surcharges on 234 of 254 packages reviewed. Although management has trained retail associates on how to assess surcharges, the current training does not include hands-on demonstrations to show retail associates how to properly measure packages. In addition, the retail associates stated they infrequently handled packages requiring surcharges. As a result, for a two-week period the [REDACTED] Districts missed potential additional revenue of \$24,600 for non-assessment of balloon rate, nonmachinable, and oversized surcharges. (See Appendix C.)

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### Summary of Recommendations

We recommended the vice president, Delivery and Retail, instruct the manager, Customer Service Operations, to establish a training method to ensure retail associates understand how to properly measure length and girth to accurately assess balloon rate, nonmachinable, and oversized surcharges.

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### Summary of Management's Comments

Management agreed with the intent of our finding, potential additional revenue of \$24,600 and recommendation. Management stated they plan to develop on-line training for retail associates which will focus entirely on surcharges. Management also stated POS ONE changes currently underway will change the way retail associates measure packages. Retail associates will be required to enter the length, width, and height of some parcels into POS ONE. Management's comments, in their entirety, are included in Appendix D of this report.

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**Overall Evaluation of  
Management's  
Comments**

Management's comments are responsive to the intent of our finding and recommendation. We modified our recommendation based on management's comments. Management's planned corrective action to develop on-line training for retail associates should correct the issues identified in the finding.





Table 3. Walk-In Revenue for Parcel Surcharges

Requirements for Measuring and Weighing Packages

The Domestic Mail Manual<sup>2</sup> provides the criteria for assessing surcharges when retail associates accept packages at the post office window. Retail associates are responsible for weighing packages to ensure they assess the customer the proper cost. Retail associates are also responsible for identifying packages that require balloon rate, nonmachinable, and oversized surcharge assessments, which include measuring the packages.

When measuring the length and girth of a package, the length is the measurement of the longest dimension and the girth is the distance around the thickest part (perpendicular to the length). Figures 1 and 2 below show how to measure the length and girth of four-sided or three-sided packages.<sup>3</sup>

Figure 1. Four-sided package

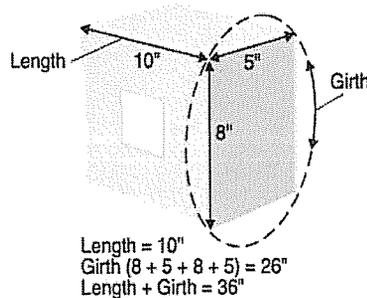
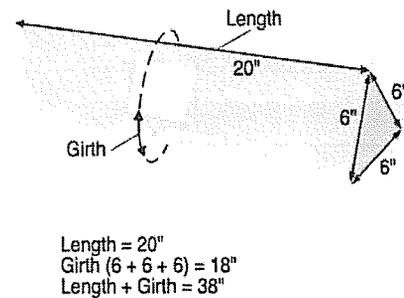


Figure 2. Three-sided package



Measurement	Maximum
Length + Girth	108 inches <sup>1</sup>
Weight	70 pounds

<sup>2</sup>Domestic Mail Manual, Issue 58, updated January 6, 2005. The background section of the manual gives the specific requirements for each surcharge.

<sup>3</sup>Postal Service Quick Service Guide 050, Basic Mailability and Processing Categories.

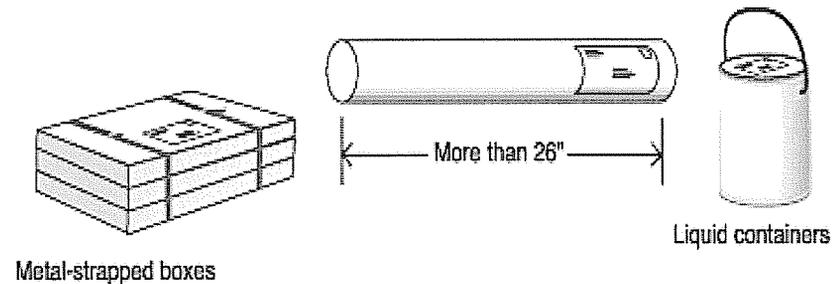
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**Balloon Rate,  
Nonmachinable, and  
Oversized Surcharges**

The balloon rate is a surcharge that covers the additional transportation cost the Postal Service incurs for pieces that are both large and lightweight. The balloon rate is applied to all Priority Mail and Parcel Post packages that weigh less than 15 pounds and measure more than 84 inches in combined length and girth but not more than 108 inches in combined length and girth.

The Postal Service assesses nonmachinable surcharges on Parcel Post packages that weigh more than 35 pounds or exceed 17 inches in height or width or 34 inches in length. The surcharge applies to cans, rolls, tubes, and wooden or metal boxes.<sup>4</sup> The surcharge also applies only to Parcel Post, not Priority Mail packages.

Figure 3. Nonmachinable Parcel Post packages



The oversized surcharge is a flat rate based upon the zone to which a package is addressed. Regardless of the weight, the Postal Service must apply the oversized rate surcharge to a package that measures more than 108 inches—but not more than 130 inches—in combined length and girth. The surcharge applies only to Parcel Post packages, not Priority Mail packages.

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**Objectives, Scope,  
and Methodology**

Our overall objective was to evaluate whether the Postal Service received the correct revenue for Priority Mail and Parcel Post packages from retail sales. Specifically, we determined whether retail associates properly assessed:

1. The balloon rate surcharge on Priority Mail and Parcel Post packages.

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<sup>4</sup>Postal Service Quick Service Guide 050, Basic Mailability and Processing Categories.

2. The nonmachinable surcharge on Parcel Post packages.
3. The oversized surcharge on Parcel Post packages.

To accomplish our objectives, we obtained and reviewed applicable policies and procedures related to parcel surcharges. We also obtained and analyzed data [REDACTED] [REDACTED] to determine the amount of lost revenue from non-assessment of parcel surcharges. (See Appendix A for additional data on lost revenue from surcharges.)

To determine whether retail associates properly assessed the balloon rate, nonmachinable, and oversized surcharges, we visited the processing and distribution centers (P&DC) and logistics and distribution centers (L&DC) in the [REDACTED] Districts. During our visits, we randomly selected approximately 10,000 packages to determine how many Parcel Post and Priority Mail packages met the Postal Service's criteria for balloon rate, nonmachinable, and oversize surcharges. After identifying 254 packages that met the criteria, we weighed and measured packages to determine whether retail associates properly assessed the correct surcharges. (See Appendix B for details on the random sample of Parcel Post and Priority Mail packages.)

We also interviewed retail associates and unit supervisors and managers at 34 randomly selected post offices in the [REDACTED] Districts.

We conducted this audit from February through September 2005, in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We relied on data obtained from the Retail

Data Mart<sup>5</sup> to determine the total number of packages the Postal Service processed and assessed surcharges to in the [REDACTED] Districts during the period March 7 through April 7, 2005. Although we did not directly audit this system, we performed a limited data integrity review to support our data reliance. We discussed our observations and conclusions with appropriate management officials and included their comments where appropriate.

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**Prior Audit Coverage**

We did not identify any prior audits or reviews related to the objectives of this audit.

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<sup>5</sup>The Retail Data Mart (RDM) was developed to give easy access to retail transaction data and critical business information used for operational planning, fraud detection, and strategy development as well as sales and market analysis. The RDM was established to harness the power of retail data to allow the Postal Service to generate more revenue, improve customer service, manage inventory, align staff with customer demand, and improve store performance. RDM data is used for rate case support, product sales, Automated Postal Center (APC) performance, fraud detection, Window Operations Surveys, marketing effort value, and other business opportunities.

### AUDIT RESULTS

**Balloon Rate and Parcel Surcharges**

The [REDACTED] Districts did not always collect the correct revenue from surcharges on Priority Mail and Parcel Post packages. Specifically, retail associates did not properly assess balloon rate, nonmachinable, and oversized surcharges on 234 packages. Although management has trained retail associates on how to assess surcharges, the current training does not include hands-on demonstrations to show retail associates how to properly measure packages. In addition, the retail associates stated they infrequently handled packages requiring surcharges. As a result, for a two-week period the [REDACTED] Districts missed potential additional revenue of \$24,600 for non-assessment of balloon rate, nonmachinable, and oversized surcharges. (See Appendix C.)

**Surcharges Not Properly Assessed**

Retail associates did not properly assess surcharges on 234 out of 254 Priority Mail and Parcel Post packages in the [REDACTED] Districts. Specifically, retail associates did not properly assess the balloon rate surcharge on 86 Priority Mail packages and 3 Parcel Post packages. We also identified 135 Parcel Post packages that were not properly assessed the nonmachinable surcharge. In addition, we identified nine packages that were not assessed the nonmachinable and balloon rate dual surcharge. Further, we identified one oversized package that was not assessed the oversized surcharge. Table 4 shows the total number of surcharges retail associates assessed incorrectly at the [REDACTED] Districts' P&DC and L&DC.

Table 4. Surcharges Assessed Incorrectly at [REDACTED] Districts.

	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	Total
Balloon Rate (Priority Mail)	N/A	29	N/A	57	86
Balloon Rate (Parcel Post)	1	N/A	2	N/A	3
Nonmachinable (Parcel Post)	53	N/A	82	N/A	135
Nonmachinable and Balloon Rate (Parcel Post)	4	N/A	5	N/A	9
Oversized (Parcel Post)	1	N/A	0	N/A	1
<b>Total</b>	<b>59</b>	<b>29</b>	<b>89</b>	<b>57</b>	<b>234</b>

Source: Postal Service Processing Centers

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**Training**

The Postal Service provides formal and informal training for retail associates on how to assess parcel surcharges. The training includes watching a videotape, participating in stand-up talks, reviewing written material, and attending the revenue-generation training course developed for retail associates. Although the supervisors and managers have these various training methods available for their retail associates, they did not properly assess surcharges in the [REDACTED] Districts.

Some retail associates participated in all the methods of training offered, while others participated in only one method. Although various methods of training were available, retail associates stated the training did not require them to actually practice measuring and weighing parcels to ensure that they understood how to apply the information during retail transactions.

Further, retail associates stated they did not frequently receive packages requiring surcharges at the retail counter. The retail associates indicated that packages requiring surcharges ranged from a frequency rate of at least once a week to once every two or three months. Table 5 shows the retail associates' frequency rates for handling packages requiring surcharges.

**Table 5. Retail Associates' Frequency Rates for Handling Packages Requiring Surcharges**

<u>Frequency Rates</u>	<u>District</u>	<u>District</u>	<u>Total</u>
At least once a week	4	4	8
Several times a week	2	11	13
Once a month	8	1	9
Several times a month	3	2	5
Rarely	8	4	12
<b>Total</b>	<b>25</b>	<b>22</b>	<b>47</b>

Source: Postal Service Retail officials

Of the 74 retail associates interviewed, 47 retail associates stated they did not handle packages requiring surcharges on a daily basis. Therefore, they did not always remember to measure the length and girth of packages that required surcharges.

As a result, for a two-week period the [REDACTED] Districts missed an opportunity to increase revenue by \$24,600 for non-assessment of balloon rate, nonmachinable, and oversized surcharges.

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**Recommendation** We recommend the vice president, Delivery and Retail, instruct the manager, Customer Service Operations, to:

1. Establish a training method to ensure retail associates understand how to properly measure length and girth to accurately assess balloon rate, nonmachinable, and oversized surcharges.

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**Management's Comments** Management agreed with the intent of our finding, potential additional revenue of \$24,600 and recommendation. Management stated they do not provide annual "refresher" training to the retail associates but they determine training each year by the needs of the service. Management also stated they plan to develop on-line training for retail associates which will focus entirely on surcharges. In addition, management stated POS ONE changes currently underway will change the way retail associates measure packages because they will be required to enter into the system the length, width, and height of some parcels.

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**Evaluation of Management's Comments** Management's comments are responsive to the intent our finding and recommendation. We originally recommended that management incorporate hands-on demonstrations in their annual "refresher" training. However, we modified the recommendation based on management's feedback. Management's planned corrective action to develop on-line training for retail associates should correct the issues identified in the finding.





## APPENDIX B. STATISTICAL SAMPLING AND PROJECTIONS

### Purpose of the Sampling

One of the objectives of this audit was to assess whether retail associates assess applicable surcharges to packages mailed over the counter. In support of this objective, the audit team employed multistage random samples of packages at two P&DCs and at two L&DCs in the ██████████ Area. The sample design allows statistical projection of the number of shortpaid packages and of the dollar amount shortpaid.

### Definition of the Audit Universe

The audit universe for each facility consisted of all packages with PVI<sup>7</sup> labels processed on the specific test dates for the facility. We judgmentally selected the facilities and their test dates and, therefore, cannot project the results to other facilities and dates. The audit team sampled carts and tested packages during Tour 2 at the test facilities because virtually all packages incoming from the district post offices arrived during that time. The audit team obtained the universe of packages from the testing itself and collected information from the PVI labels to calculate postage amounts retail associates should have charged for packages eligible for size-related charges in four categories:

- Priority Mail balloon rate
- Parcel Post balloon rate
- Parcel Post nonmachinable surcharge
- Parcel Post oversized surcharge

### Sample Design and Modifications

We had no prior information regarding the number of packages we could expect to find that were shortpaid (i.e., had not been charged the surcharges at the counter). Therefore, we selected an interval sampling plan so the team could apply it over the entire Tour 2 period and collect as much data as possible. The interval achieved varied among the facilities based on the rate of incoming mail. Also at the later facilities, the team members had improved the rate at which they could analyze the packages. We used the term “container” here to mean the All-Purpose Containers or Bulk Mail Carts in which the packages arrived.

Within each container, the team examined all packages to establish whether any of the surcharge criteria were met (i.e., how many packages were eligible for a surcharge). For all of the eligible packages in the selected containers, the team collected the PVI label data to allow later calculation of the rate the associate should have charged.

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<sup>7</sup>The PVI is a computer printing device that attaches to an Integrated Retail Terminal (IRT) and POS ONE systems to produce a postage label.

The following notes summarize the designs by facility:

- [REDACTED] P&DC
  - Universe total of 239 containers, approximately every other one selected, unless volume was sufficiently low to test additional containers; sample consisted of 155 containers over 5 test days.
  - This resulted in a total of 1,669 packages the audit team tested.
- [REDACTED] L&DC
  - Two-stage sample: trucks at the first stage, containers at the second stage.
  - Universe of 55 trucks, attempted to select every other one unless volume sufficiently low to test additional trucks (trucks observed to contain only letter trays or other non-package mail were not included in the universe count); sample consisted of total of 29 trucks over 3 test days.
  - Total of 463 containers, with 223 selected in sample, over 3 test days.
  - This resulted in a total of 3,892 packages the audit team tested.
- [REDACTED] P&DC
  - Census of 160 containers over 4 test days.
  - This resulted in a total of 1,159 packages the audit team tested.
- [REDACTED] L&DC
  - Census of 222 containers over 4 test days.
  - This resulted in a total of 3,286 packages the audit team tested.

### **Statistical Projections of the Sample Data**

To project the number of eligible packages and the amount shortpaid in the audit universes for the [REDACTED] facilities, we analyzed the sample data using the formulas for estimating a population total for a stratified random sample or a two-stage cluster sample as appropriate (see Elementary Survey Sampling, Scheaffer, Mendenhall, and Ott, c.1990). The [REDACTED] District results are the actual observations, as the reviews at the [REDACTED] facilities were both census reviews.

#### **[REDACTED] P&DC**

Based on projection of the sample results, we are 95 percent confident that retail associates did not collect between \$271 and \$501 for packages eligible for surcharges; the point estimate is that retail associates did not collect \$386 for 86 packages in the 5-day test period.

**[REDACTED] L&DC**

Based on projection of the sample results, we are 95 percent confident that retail associates did not collect between \$446 and \$710 for packages eligible for surcharges; the point estimate is that \$578 was not collected for 105 parcels in the 3-day test period.

**[REDACTED] P&DC**

We observed retail associates did not collect \$209 for the 79 packages eligible for surcharges in the 4-day test period.

**[REDACTED] L&DC**

We observed retail associates did not collect \$184 for the 37 packages eligible for surcharges in the 4-day test period.

**Implications Based on Retail Data Mart Information**

To estimate the potential dollars associated with a full two-week period for each of the four above sites, we obtained, from Retail Data Mart, the number of packages for which retail associates actually assessed surcharges. Our tests provided us with site-specific estimates of the fraction of packages eligible for surcharges for which retail associates did apply surcharges. Relying on the Retail Data Mart package counts and these percentages, we estimated potential additional revenue for a two-week period corresponding to the test dates:

<b><u>Districts</u></b>		<b><u>Potential Additional Revenue</u></b>
[REDACTED]	P&DC	\$16,000.00
[REDACTED]	L&DC	4,500.00
[REDACTED]	P&DC	3,700.00
[REDACTED]	L&DC	<u>400.00</u>
<b>Total</b>		<b>\$24,600.00</b>

### APPENDIX C

## OFFICE OF INSPECTOR GENERAL (OIG) CALCULATION OF POTENTIAL ADDITIONAL REVENUE

As shown below, the OIG identified \$24,600 in potential additional revenue. The OIG calculated the potential additional revenue through multistage random samples of packages at two P&DC and at two L&DC in the [REDACTED] Area.

- [REDACTED] P&DC
  - Based on projection of the sample results, we are 95 percent confident that retail associates did not collect between \$271 and \$501 for packages eligible for surcharges; the point estimate is that retail associates did not collect \$386 for 86 packages in the 5-day test period.
- [REDACTED] L&DC
  - Based on projection of the sample results, we are 95 percent confident that retail associates did not collect between \$446 and \$710 for packages eligible for surcharges; the point estimate is that retail associates did not collect \$578 for 105 parcels in the 3-day test period.
- [REDACTED] P&DC
  - We observed retail associates did not collect \$209 for the 79 packages eligible for surcharges in the 4-day test period.
- [REDACTED] L&DC
  - We observed retail associates did not collect \$184 for the 37 packages eligible for surcharges in the 4-day test period.

To estimate the potential dollars associated with a full two-week period for each of the four above sites, we the number of packages that retail associates actually assessed surcharges to from the Retail Data Mart. Our tests provided us with site-specific estimates of the fraction of packages eligible for surcharges for which retail associates did apply surcharges. Relying on the Retail Data Mart package counts and these percentages, we estimated the following potential additional revenue for a two-week period corresponding to the test dates:

<u>Districts</u>		<u>Potential Additional Revenue</u>
[REDACTED]	P&DC	\$16,000.00
[REDACTED]	L&DC	4,500.00
[REDACTED]	P&DC	3,700.00
[REDACTED]	L&DC	400.00
<b>Total</b>		<b>\$24,600.00</b>

## APPENDIX D. MANAGEMENT'S COMMENTS

ELLIS A. BURGoyNE  
VICE PRESIDENT, DELIVERY AND RETAIL



September 19, 2005

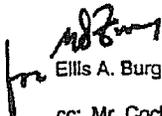
MARY W. DEMORY

SUBJECT: Draft Management Advisory – Balloon Rate and Parcel Surcharges  
(Report Number DR-AR-05-DRAFT)

This is in response to the Office of Inspector General's draft audit report regarding the [REDACTED] Districts. We have reviewed the report and have concerns with the recommendations relating to incorporate hands-on demonstrations in the annual retail associates refresher training to ensure retail associates understand how to properly measure length and girth to accurately assess balloon rate, nonmachinable, and oversized surcharges.

We do not provide annual "refresher" training to our retail associates. Training each year is determined by the needs of the service. Next year we intend to develop on-line training for retail associates which focuses entirely on surcharges. Additionally, POS ONE changes currently underway will change the way retail associates measure packages. They will now be required to enter the length, width and height of some parcels. The POS ONE system will determine the "girth" of the package based on the dimensions entered. Therefore, we request that you eliminate the reference to refresher training or change to "establish a training method to ensure this is accomplished."

If you have any questions, please contact Frederick J. Hintenach, Manager, Customer Service Operations at (202) 268-5045.

  
for Ellis A. Burgoyne  
cc: Mr. Cochrane  
Mr. Hintenach  
Ms. Webster

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