

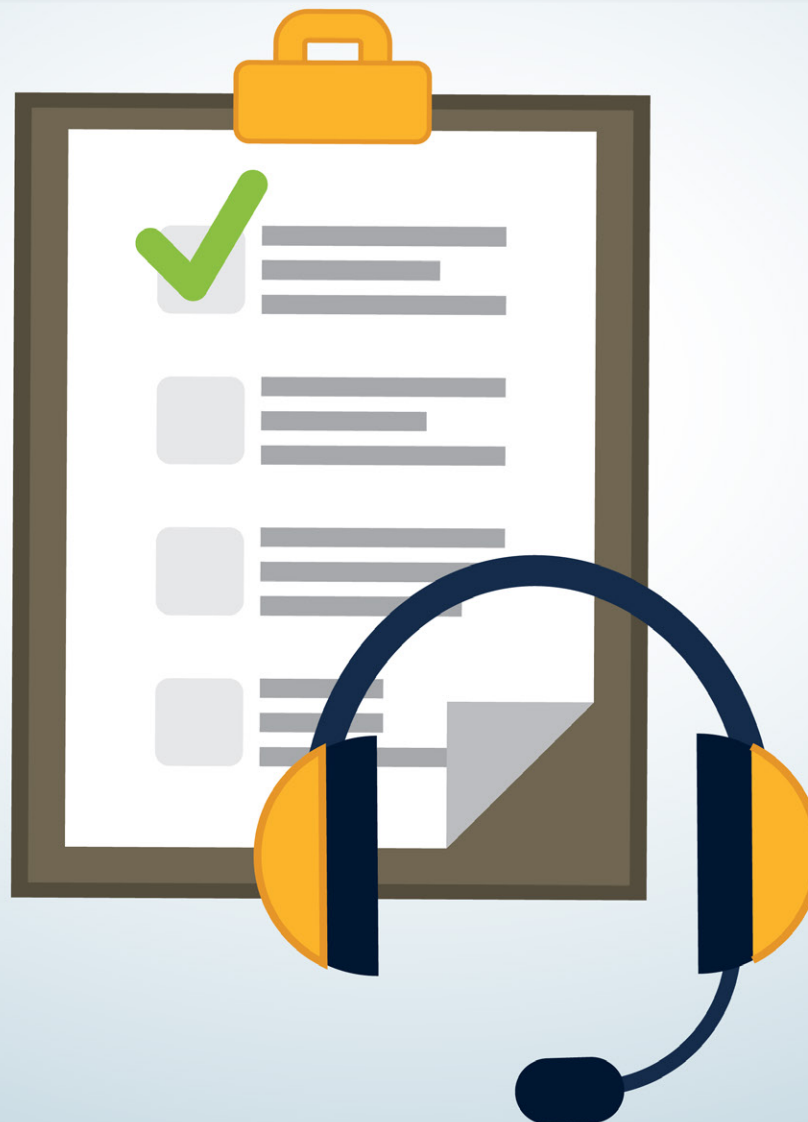


Office of Inspector General | United States Postal Service

## Audit Report

# Accuracy of In-Office Cost System Data

Report Number CP-AR-18-001 | October 18, 2017



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# Highlights

## Objective

Our objective was to assess the accuracy and reliability of In-Office Cost System (IOCS) telephone readings. The IOCS is the primary probability sampling system used by the U.S. Postal Service to attribute the labor costs of clerks, mail handlers, city carriers, and supervisors related to the handling of mail of all classes and rate categories.

Samples are collected using in-person observations or by telephone readings. Telephone readings are acceptable when it is not possible for a data collector technician (DCT) to reach an employee at his or her work location at the

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***“While the DCTs observed by the OIG during selected site visits generally followed policies and procedures, opportunities exist to improve sampling procedures and controls to enhance the accuracy and reliability of the data.”***

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scheduled time of the sample. If an employee is not available for an in-person observation or telephone reading when the sample is scheduled, the sample must be rescheduled according to policy. In fiscal year (FY) 2016, the Postal Service conducted 546,650 IOCS readings: 305,800 (about 56 percent) were performed by telephone, and 240,850 (about 44 percent) were performed in-person.

The Postal Accountability and Enhancement Act of 2006 requires the Postal Service to file an *Annual Compliance Report* (ACR) with the Postal Regulatory Commission (PRC) within 90 days of the end of each fiscal year. The report analyzes cost,

revenue, rates, and quality of service for all products. Further, it reports whether revenue for each mail class and service type covers its attributable costs, which are costs directly or indirectly caused by products.

## What the OIG Found

While the DCTs observed by the U.S. Postal Service Office of Inspector General during selected site visits generally followed policies and procedures, opportunities exist to improve sampling procedures and controls to enhance the accuracy and reliability of the data. Specifically:

- The Postal Service did not consistently follow policies and procedures to reschedule telephone readings. Telephone readings can be rescheduled for multiple reasons: employee schedule change, DCT missing a reading time, or DCT being unable to locate an employee. During FY 2016, the Postal Service rescheduled 35,515 (12 percent) planned IOCS telephone readings. We analyzed a statistical random sample of those readings and determined an estimated 16 percent of the 35,515 readings were not rescheduled as stipulated in Postal Service policy.

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***“The Postal Service did not consistently follow policies and procedures for rescheduling IOCS telephone readings.”***

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Management stated this occurred because they allowed data collectors greater flexibility than the policy mandates regarding when the tests are rescheduled. Management asserted this flexibility improves the chances of collecting comprehensive data because there are more opportunities to complete the rescheduled tests. However, the inconsistent application of rescheduled sampling methodologies and procedures could create sampling bias. Specifically, it could result in readings done on days of the week different from the day originally scheduled and in mail flows that may not be representative of the day in which the original sample was scheduled.

- Discrepancies existed between IOCS telephone reading data and Time and Attendance Collection System (TACS) data. IOCS telephone reading records indicated 94,929 carrier readings (31 percent) and 771 clerk/mail handler readings (0.25 percent) were not located in the facility or in the immediate

area of the facility (“off premise”) during the scheduled reading times. From those identified as “off premise,” we selected a statistical random sample of those readings and determined that an estimated 15 percent of carriers and 59 percent of clerks/mail handlers were clocked into office operations at the facility during the scheduled reading times.

These issues occurred because the Postal Service did not have systems in place sufficient for DCTs to validate employee availability during telephone readings or for management to reconcile discrepancies after the fact between IOCS and TACS. Additionally, supervisors may have miscommunicated the actual location of the sampled employees to DCTs during telephone readings. If employees are potentially misidentified as being “off premise” and unavailable during the sampling process, it hinders data collectors from collecting comprehensive data. The data collected during IOCS readings are used to attribute costs to products. Therefore, if DCTs are missing opportunities to gather data, it could impact the accuracy of cost attribution.

- Discrepancies existed between FY 2016 IOCS data set filed with the PRC and the FY 2016 IOCS records contained within the Postal Service’s IOCS data entry system. Specifically, the data set filed with the PRC was missing 14,596 completed readings, 6,298 rescheduled readings, and 121 canceled readings. We also found 17,439 delinquent reading records within the final IOCS data set that were not complete and, therefore, unreadable.

Management stated these discrepancies likely occurred because reading records were not transmitted to or approved in the IOCS data entry system by the end of the quarter, or were not properly processed for inclusion in the final

IOCS data set. These factors resulted in the exclusion of reading records from the final IOCS data set.

In addition, there were no controls in place to verify completeness of the final data output. The Postal Service uses the final IOCS data set filed with the PRC for cost attribution. Incomplete sampling data impacts the accuracy and reliability of reported costs for mail products and services. This issue resulted in \$31 million in misallocated costs among products, representing about 0.09 percent of the total labor costs distributed to FY 2016 products.

## What the OIG Recommended

We recommended management:

1. Establish automated controls in the IOCS data entry system that validates IOCS telephone readings are rescheduled according to policy.
2. Verify employees’ activities and location at the time of IOCS telephone readings and report discrepancies with TACS to supervisors if corrections to clock rings are needed.
3. Verify all IOCS readings are transmitted to and approved in the Postal Service’s IOCS data entry system by the end of the quarter.
4. Confirm the completeness of the final IOCS data set filed with the PRC for cost attribution prior to submission to the PRC.

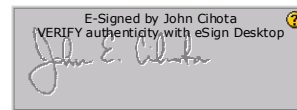
# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

October 18, 2017

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



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

**SUBJECT:** Audit Report – Accuracy of In-Office Cost System Data  
(Report Number CP-AR-18-001)

This report presents the results of our audit of the Accuracy of In-Office Cost System Data (Project Number 17BG008CP000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Sherry Fullwood, Director, Cost, Pricing and Investments, or me at 703-248-2100.

Attachment

cc: Corporate Audit Response Management



# Results

## Introduction/Objective

This report presents the results of our self-initiated audit of the Accuracy of In-Office Cost System (IOCS) Data (Project Number 17BG008CP000). We performed this review as part of our mandate under the Postal Accountability and Enhancement Act of 2006 to regularly audit the data collection systems and procedures used to collect information and prepare reports.<sup>1</sup> Our objective was to assess the accuracy and reliability of IOCS telephone readings. See [Appendix A](#) for additional information about this audit.

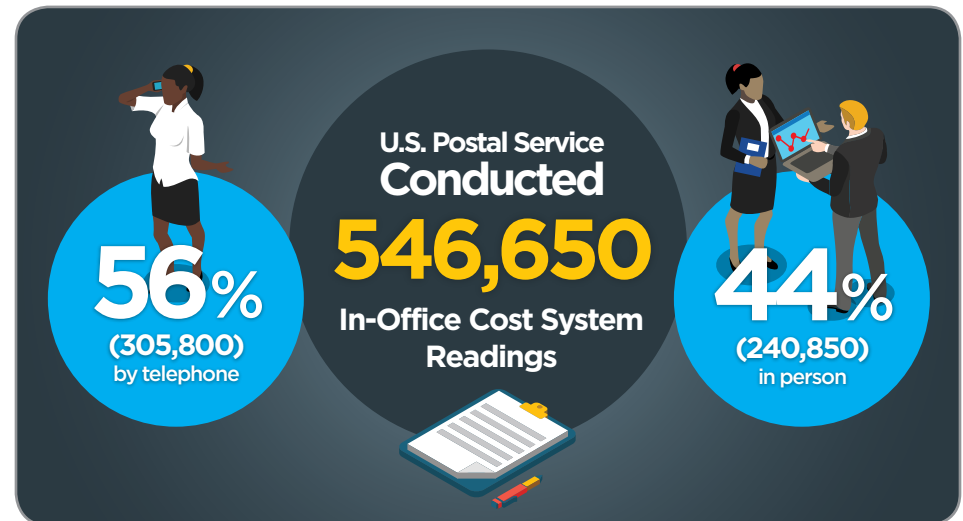
## Background

The IOCS is the primary probability sampling system used to attribute the labor costs of clerks, mail handlers, city carriers, and supervisors related to the handling of mail of all classes

and rate categories. The data is used to attribute about \$20 billion annually in volume variable costs<sup>2</sup> to mail products. According to the IOCS data set in the fiscal year (FY) 2016 *Annual Compliance Report* (ACR),<sup>3</sup> the U.S. Postal Service conducted 546,650 IOCS readings: 305,800 (about 56 percent) were performed by telephone and 240,850 (about 44 percent) were performed in-person.

The total costs of the Postal Service are available from the book of accounts; however, the accounting records generally do not indicate how the costs

***“According to the IOCS data set in the FY 2016 ACR, the Postal Service conducted 546,650 IOCS readings: 305,800 (about 56 percent) were performed by telephone and 240,850 (about 44 percent) were performed in-person.”***



are distributed to each specific class and subclass of mail or each special service. Further, Postal Service timekeeping systems indicate the amount of labor time spent in each operation or work center. However, they do not indicate the types of mail handled or specific activities performed in the various work centers during those times. The IOCS provides detailed activity data required for clerk, mail handler, city carrier, and supervisor labor costs, by mail class and subclass, in cost ascertainment group<sup>4</sup> post offices and in special processing facilities.

An IOCS in-person reading consists of observing and recording the activity that a selected employee performs at a designated time during a specific workday. For the in-person reading, the data collector technician (DCT) is responsible for following all IOCS procedures and recording the characteristics (for example, indicia, special services, and weight) of any mail or mail processing equipment the sampled employee is handling. This audit did not include a review of in-person readings.

<sup>1</sup> U.S. Code, Title 39-Postal Service, Subsection 3625(a).

<sup>2</sup> Volume variable costs are those that change with mail volume and operational activities.

<sup>3</sup> The ACR analyzes cost, revenue, rates, and quality of service for all products. Further, it reports whether revenue for each mail class and service type covers its attributable costs, which are costs directly or indirectly caused by products.

<sup>4</sup> Method that classifies post offices according to volume of revenue generated.

Telephone readings are an acceptable substitute for in-person readings when it is not possible for a DCT to reach an employee at his or her work location at the scheduled time of the sample. For the telephone reading, a DCT calls the postal facility where the sampled employee is scheduled to work and asks the employee's supervisor to observe the sampled employee. The supervisor or another employee at the postal facility is responsible for following the instructions from the DCT and providing accurate responses to the IOCS questions.

DCTs gather, record, and analyze a variety of statistical data on selected operating and financial activities. Their duties include:

- Planning and executing work activities without direct supervision.
- Sampling mail and collecting data at randomly selected points in the postal system.
- Using computer systems at a level sufficient to operate keyboard devices, input IOCS data, and transmit that data to the Computerized On-site Data Entry System (CODES) Web-Based Unit (WBU).<sup>5</sup>
- Protecting the integrity of sample selections and data.
- Communicating orally and in writing at a level sufficient to interpret and exchange information, answer questions, and give directions.

The Postal Service summarizes IOCS data and uses it as inputs to a variety of reports, including the *Cost and Revenue Analysis Report and International Cost and Revenue Analysis Report*.<sup>6</sup> The Postal Service also provides IOCS data to Congress, in financial performance and operational summaries, and to the Postal Regulatory Commission (PRC),<sup>7</sup> as part of the ACR filing, to use for oversight and regulation of postal products and prices.

## Finding #1: In-Office Cost System Telephone Sampling and Training

DCTs observed by the U.S. Postal Service Office of Inspector General (OIG) during selected site visits generally followed policies and procedures for conducting IOCS telephone readings. Additionally, management provided training to DCTs we interviewed and conducted the required quarterly assessments<sup>8</sup> for all IOCS DCTs.

We conducted 25 site visits in four Postal Service areas. The sites selected had the largest number of IOCS samples by product<sup>9</sup> in FYs 2015 and 2016. During the 25 site visits, we observed 17 DCTs and interviewed 60 Postal Service supervisors and employees, as shown in [Table 1](#). Specifically, we observed the DCTs conducting readings according to the daily sampling schedules and the data collection prompts from the CODES WBU. We interviewed supervisors and employees to determine how telephone readings had been conducted with them on prior occasions and if they understood the process. Overall, at the sites we visited, the DCTs gathered the appropriate information to conduct the IOCS reading and sampled employees had a proficient understanding of the process and procedures for conducting telephone readings.

<sup>5</sup> This system is the platform to provide an automated mechanism for the field data collection systems.

<sup>6</sup> The *Cost and Revenue Analysis Report* compares attributable costs to revenue to determine whether each domestic product's revenue covers its costs. The *International Cost and Revenue Analysis Report* provides the same information for all classes of international mail. Attributable costs are those that are directly or indirectly caused by a product or service.

<sup>7</sup> The PRC is an independent establishment of the executive branch of the U.S. government that has regulatory oversight over many aspects of the Postal Service, including the development and maintenance of regulations for pricing and performance measures.

<sup>8</sup> Quarterly assessments are training tools designed to measure the effectiveness of training, written policies, and procedures.

<sup>9</sup> Letters, flats, and parcels.

**Table 1. Area Site Visits and Sampled Employees**

Postal Employees	Capital Metro	Eastern	Great Lakes	Western	Total
DCTs	3	3	5	6	17
Supervisors	4	4	3	10	21
Employees	4	14	11	10	39
<b>Total</b>	<b>11</b>	<b>21</b>	<b>19</b>	<b>26</b>	<b>77</b>

Source: OIG analysis.

In August 2016, the Postal Service proposed a new sampling methodology to the PRC that would enable DCTs to improve efficiency and obtain data from more in-person readings rather than telephone readings. However, the PRC rejected the proposal due to incomplete documentation and data deficiencies. The Postal Service is currently working on an updated sampling methodology that addresses the PRC's original concerns. If approved by the PRC, the new sampling design would provide the ability to cluster the majority of readings in the morning, when most carriers are not yet out for delivery, and to conduct readings in parking lots and loading areas. Management stated this would enable DCTs to collect statistical data from a greater number of sampled carrier employees. This is also expected to increase data collection efficiency, as DCTs would conduct readings for less time during the day while collecting more data. Additionally, this would improve data quality by allowing more in-person readings where DCTs can physically observe employee activities and perform data validation.

We also determined the Postal Service provided Process Activated Training System (PATs) training to DCTs we interviewed and conducted quarterly assessments to evaluate DCTs' technical knowledge and performance. According to Handbook F-95, *Statistical Programs Management Guide*,<sup>10</sup> the Manager, Financial Programs Compliance (MFPC), is responsible for training new and experienced data collectors and maintaining a current record of training for each individual who participates in data collection activities. The handbook also stipulates all DCTs are required to complete quarterly assessments, and the MFPC is responsible for scheduling the review and meeting with data collectors individually to address errors.

We reviewed PATs training data and found all 17 DCTs we interviewed had IOCS DCT courses listed in their training history. We also reviewed the FY 2016 quarterly assessment records for all 1,167 DCTs qualified to perform IOCS testing. We found 1,161 completed their quarterly assessment or had valid reasons for not doing so (for example, received a promotion, was on a detail assignment, or was on extended leave). The remaining six DCTs did not have proper documented training, due to management oversights. This constituted only 0.5 percent of the DCTs.

We also determined Postal Service Headquarters disseminates new policies and procedures to the field and conducts National Statistical Programs training via WebEx each quarter. When necessary, data quality issues are highlighted during these training sessions. Additionally, the CODES software identifies potential training needs at the national and district levels.

Since the Postal Service generally followed proper processes for IOCS telephone sample readings and training, we are not making recommendations in these areas.

<sup>10</sup> This handbook, dated July 2016 at the time of our review, is a training aid and reference guide for district managers of Statistical Programs in managing district Statistical Programs operations.



## Finding #2: Rescheduled Telephone Readings

The Postal Service did not consistently follow policies and procedures for rescheduling IOCS telephone readings. Telephone readings can be rescheduled for multiple reasons, such as an employee schedule change, a DCT missing a reading time, and a DCT being unable to locate employee. During FY 2016, the Postal Service rescheduled 35,515 out of 305,800 (12 percent) planned telephone readings. We analyzed an unrestricted attribute sample<sup>11</sup> from those readings and determined that an estimated 16 percent of the 35,515 rescheduled tests were not rescheduled in accordance with policies and procedures.

Postal Service policy<sup>12</sup> states a reading must be rescheduled one week later than the original date, on the same day of the week as it was originally scheduled. However, if a reading is scheduled during the last seven days of a quarter, it must be rescheduled on any day during the last seven days of that quarter. Of the 33 noncompliant rescheduled readings in our sample, 17 (52 percent) were not scheduled on the same day of the week as the original reading date. The remaining 16 (48 percent) were rescheduled on the same day of the week, but more than one week later than the original reading date. None of these rescheduled readings occurred in the last seven days of a quarter.

Management stated this occurred partly because they allowed DCTs greater flexibility than the policy mandates regarding when the tests are rescheduled, especially towards the end of the quarter. They asserted this flexibility improves the chances of collecting comprehensive data because there are more opportunities to complete the rescheduled tests. Management also stated the CODES WBU does not have controls in place to prevent DCTs from selecting rescheduled dates that fall outside the stipulations in the policy.

We found no material impact for the noncompliant rescheduled readings that occurred on the same day of the week as the original reading date. However, the inconsistent application of rescheduled sampling methodologies and procedures could create sampling bias. Specifically, it could result in readings done on days of the week different from the day originally scheduled and in mail flows that may not be representative of the day in which the original sample was scheduled.

### Recommendation #1:

**Vice President, Pricing and Costing, direct the Manager, Statistical Programs, to establish automated controls in the Computerized On-site Data Entry System Web-Based Unit that validate In-Office Cost System telephone readings are rescheduled according to policy.**

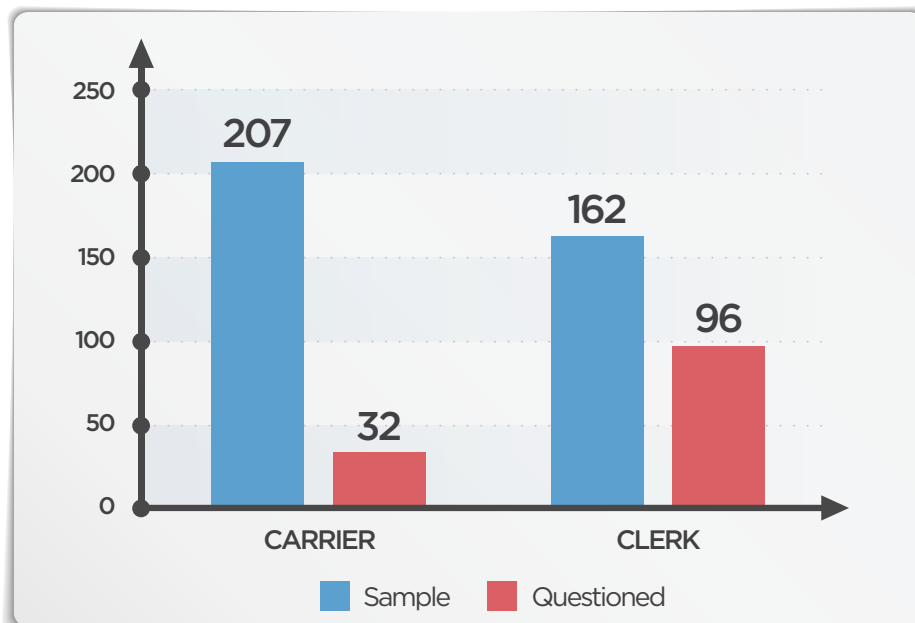
<sup>11</sup> A statistical random sample with a 95 percent confidence level and 14 percent precision range.

<sup>12</sup> Handbook F-95, *Statistical Programs Management Guide*, dated July 2016.

### Finding #3: Off Premise Telephone Readings

IOCS telephone reading records indicated 94,929 carrier readings (31 percent) and 771 clerk/mail handler readings (0.25 percent) were “off premise”<sup>13</sup> during the scheduled reading times. We selected an unrestricted attribute sample of “off premise” readings and compared these records to clock ring data in the Time and Attendance Collection System (TACS).<sup>14</sup> We determined that an estimated 15 percent of carriers and an estimated 59 percent of clerks/mail handlers were identified as “off premise” in the IOCS data but were clocked into various office functions in TACS during the scheduled reading times. We illustrate these results in Figure 1.

**Figure 1. “Off Premise” Analysis Results**



Source: OIG analysis using FY 2016 IOCS and TACS data.

These issues occurred because the Postal Service did not have systems in place sufficient for DCTs to validate employee availability during the telephone readings or for management to reconcile discrepancies after the fact between IOCS and TACS. Postal Service Headquarters requires district MFPCs to provide oversight and verify the reading data. However, that oversight and verification does not identify all instances where there is a discrepancy between IOCS and TACS data. Additionally, supervisors may have miscommunicated the actual location of the sampled employees to DCTs during telephone readings. When an employee is identified as “off premise” during the IOCS telephone reading, there are no additional questions requested about the mail or activities performed. Therefore, if employees are potentially misidentified as being “off premise” and unavailable during the sampling process, it hinders DCTs from collecting comprehensive sampling data during the IOCS telephone reading.

#### **Recommendation #2:**

**Vice President, Pricing and Costing, direct the Manager, Statistical Programs, to verify employees’ activities and location at the time of In-Office Cost System telephone readings and report discrepancies with Time and Attendance Collection System data to facility supervisors if corrections to clock rings are needed.**

<sup>13</sup> According to the CODES data flowchart, “on premise” is defined as anywhere in the facility or in the immediate area outside the facility. We considered IOCS telephone readings with a “no” for on premise as “off premise” readings.

<sup>14</sup> The system used by all installations to automate the collection of employee time and attendance information.

## Finding #4: Missing Data Records

The Postal Service did not have controls in place to verify completeness of the final IOCS data set filed with the PRC. We found discrepancies between the FY 2016 IOCS data filed with the PRC and the FY 2016 IOCS records reported in the *Test Statistics Summary Report (TSSR)*<sup>15</sup> in CODES WBU. Specifically, the final data set was missing 14,596 completed readings (3 percent), 6,298 rescheduled readings (8 percent), and 121 canceled readings (1 percent), as shown in Table 2.

**Table 2. FY 2016 IOCS Reading Records**

Data Reports	Completed Readings	Rescheduled Readings	Cancelled Readings
TSSR in CODES WBU	571,946	83,072	10,821
IOCS Data Set	557,350	76,774	10,700
<b>Difference</b>	<b>14,596</b>	<b>6,298</b>	<b>121</b>

Source: OIG analysis of FY 2016 TSSR and final IOCS data set.

We also found 17,439 delinquent reading records within the final IOCS data set that were not complete and, therefore, unreadable. Delinquent readings were not uploaded to CODES WBU by the scheduled reading date. Therefore, the statistical information associated with these readings was not reported to the PRC for oversight and verification.

Management stated this likely occurred due to late transmission of some reading data from CODES WBU to the mainframe,<sup>16</sup> as well as a mainframe processing error that occurred during the FY 2016 reporting period.

- In some cases, IOCS reading data may not have been transmitted to CODES WBU by DCTs or approved in CODES WBU by MFPCs or Supervisors of Statistical Programs prior to the end of the quarter. As a result, these readings would have been excluded from the end-of-quarter mainframe processing. Postal Service policy<sup>17</sup> requires the immediate transfer of IOCS data to CODES WBU when a reading is completed and the data reviewed. However, there was no verification to ensure this occurs prior to the end-of-quarter processing.
- A processing error occurred in FY 2016 that prevented the IOCS program from executing properly. Some of the original data was inadvertently processed twice, which caused the mainframe to reject data and drop those records to avoid potentially duplicated data. However, this prevented unique data records from being included in the final IOCS data set for FY 2016.

Because of this audit, management calculated the impact of the missing records and determined exclusion of the records resulted in an immaterial change to the distribution keys used to attribute labor costs to products. Management estimated \$31.4 million was potentially misallocated across products due to the exclusion of the missing records. This represents about 0.09 percent of the total labor costs distributed to products in FY 2016.<sup>18</sup>

<sup>15</sup> The TSSR provides information about a district's readings for each CODES application, such as unapproved, canceled, and rescheduled readings.

<sup>16</sup> A mainframe is a type of computer with a large amount of storage and is typically used to process high volumes of data. The Postal Service stores and summarizes raw IOCS reading data on a mainframe.

<sup>17</sup> Handbook F-45, *Data Collection User's Guide for In-Office Cost System*, dated October 2004.

<sup>18</sup> Management's estimate of \$31.4 million was the maximum potential impact from the missing records. However, management believes that there is a very low probability that all of the records would not follow the normal distribution of the incorporated tallies (99.1 percent of the total tallies). Assuming that the distribution keys associated with the missing data records are similar to those that were incorporated, a 95 percent confidence interval for the impact on final estimated costs would be under \$4 million.

The Postal Service uses the final IOCS data set to attribute costs to products. Although the estimated \$31.4 million for the missing records may not have been material to the FY 2016 cost data, incomplete sampling data poses a data integrity risk,<sup>19</sup> to include reporting inaccurate costs for products and services. This could lead management and the PRC to rely on incorrect information when determining cost coverage and setting postal prices.

Because of our audit, management implemented an IOCS reconciliation process to use in the future to ensure IOCS data sets include all reading records.

**Recommendation #3:**

**Vice President, Pricing and Costing, direct the Manager, Statistical Programs, to verify all In-Office Cost System readings are transmitted to and approved in the Computerized On-site Data Entry System Web-Based Unit by the end of the quarter.**

**Recommendation #4:**

**Vice President, Pricing and Costing, direct Manager, Statistical Programs, to confirm the completeness of the final In-Office Cost System data set used for cost attribution prior to submission to the Postal Regulatory Commission.**

<sup>19</sup> The risk that the authorization, completeness, and/or accuracy of transactions as they are entered into, processed, summarized, and reported by application systems are compromised due to inadequate recording structures.

## Finding #5: Additional Observations

During our site visit to the Great Lakes Area, we were informed of ongoing complaints for seven of the offices in the Detroit District. The issues included offices not answering the telephones and a need for improved supervisor cooperation in providing information to DCTs during IOCS telephone readings. The seven offices identified were:

- Southfield, MI;
- Saint Clair Shores, MI;
- Detroit, MI, Network Distribution Center;
- Michigan Metroplex;
- Royal Oak, MI, Military Post Office;
- Ann Arbor, MI; and
- GWY (Detroit Processing and Distribution Center).

According to Great Lakes Area personnel, these issues caused a delay in the data collection process. However, from our observations, we determined they did not preclude completion of the readings or affect the accuracy of the information gathered once the calls were answered. We informed Postal Service Headquarters personnel of the issue and provided the names of the facilities. Management followed up with these offices to ensure ongoing compliance with the telephone readings by distributing a memorandum to reiterate the policy.

We are not making a recommendation on this matter because management took corrective action to resolve the issues.

## Management's Comments

Management partially agreed with recommendations 1 and 2. Management agreed with recommendations 3 and 4.

Regarding recommendation 1, management noted that to update the data system enforcing the rule to reschedule readings on the same day of the following week would be more of an administrative burden that does not yield much benefit. Instead of modifying the system, management plans to issue training materials to reinforce that tests be taken as close as possible to the originally scheduled date. Management added that when faced with rescheduling at the end of the quarter, the option of rescheduling on a different day is preferable to losing the data completely. Consequently, management will update the current policy so that it matches the current implementation of scheduling rules on the Web Base-Unit (WBU). Both of these actions will be completed by January 31, 2018.

Regarding recommendation 2, management noted that DCTs are trained to use TACS to validate respondent activity if they have appropriate access. However, not all DCTs have TACS access, and some of the discrepancies found may have been due to clock ring edits not known to the DCT. Management agreed to provide reports about clocking discrepancies to the district finance manager. Further, management will reinforce training to ensure clerks conducting mail verification are on-site at a DMU, not off premises from their base facility. These actions will be completed by January 31, 2018. Management added that the Postal Service is working toward redesigning parts of IOCS in an effort to reduce telephone readings. No implementation date was provided.

Regarding recommendation 3, management developed a reconciliation process to validate the samples selected and data received.

Regarding recommendation 4, management will conduct data reconciliation before submitting data to the PRC. This action is scheduled to be completed by December 31, 2017.

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



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## Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations and the corrective actions should resolve the issues identified in the report. Regarding recommendations 1 and 2, we agree that management's alternative actions, to include updating policy, providing training, and distributing reports to district personnel, will address the issues noted.

All recommendations require OIG concurrence before closure. The OIG requests written confirmation when corrective actions are completed. Recommendations 1, 2, and 4 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 recommendation 3 closed with the issuance of this report.

# Appendices

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# Appendix A: Additional Information

## Scope, Methodology, and Prior Audit Coverage

The scope of our audit was to review IOCS telephone readings in FY 2016. We focused on telephone readings, as opposed to in-person readings, because they accounted for the majority (56 percent) of IOCS readings.

To accomplish our objective, we:

- Reviewed Postal Service regulations, policies, and procedures for IOCS data collection and telephone readings.
- Reviewed the PRC website to identify case files submitted for IOCS.
- Interviewed Postal Service management to evaluate the process of conducting IOCS telephone readings and determining accuracies.
- Analyzed FY 2016 IOCS telephone data to identify inconsistencies, trends, or anomalies for DCTs.
- Visited 25 facilities in four Postal Service areas. We selected sites in three areas based on the largest amount of IOCS samples by product, as shown in Table 3. We also conducted site visits in the Capital Metro Area.

**Table 3. Site Selections by Number of IOCS Product Samples Compared to National Average**

Product	Springfield, MO Western Area	Lehigh Valley, PA Eastern Area	Michigan Metro / Ann Arbor Great Lakes Area	National Average
Letters	127	81	124	4.98
Flats	59	41	167	4.25
IPP Parcels	37	22	70	3.43

Source: FY 2016 IOCS reading data.

- Interviewed DCTs, clerks, mail handlers, carriers, and operational supervisors to determine if they understood the process and procedures for conducting IOCS telephone readings.
- Observed DCTs performing telephone readings to determine if they followed documented procedures.
- Observed supervisors conducting observations of sampled employees and answering the DCTs' questions over the telephone to determine if they followed documented procedures.
- Compared rescheduled telephone reading dates to original scheduled dates to verify compliance with policy.
- Compared IOCS telephone reading data to TACS data in the Electronic Data Warehouse (EDW)<sup>20</sup> and the TSSR in CODES WBU to verify accuracy, validity, and completeness.
- Used the OIG Management Operating Data System (MODS) risk model to review exception reports for errors in reported work hours or volume. The OIG MODS risk model exception reports identify (1) work hours recorded in an operation with no mail volume, or (2) mail volume recorded in an operation with no work hours. In theory, the MODS operations to track DCTs' work hours should not be in the exception reports because the DCTs do not handle mail. We did not identify issues after reviewing the OIG MODS exception reports.

We conducted this performance audit from March through October 2017, 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

<sup>20</sup> EDW is a collection of data from many sources which is stored in a single place for reporting and analysis. The vision of EDW is to provide a single repository for managing all of the Postal Service's data assets.

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with management on September 25, 2017, and included their comments where appropriate

We assessed the reliability of computer-generated data from IOCS through discussion with personnel from the Postal Service Cost Systems and Analysis group and comparison of key information and data against separately prepared

documents provided by management. We determined that the data was sufficiently reliable for the purposes of this report.

The OIG did not identify any prior audits or reviews related to the objective of this audit within the last five years.

# Appendix B: Management's Comments

Sharon Owens  
Vice President, Pricing and Costing



October 13, 2017

LORI LAU DILLARD  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Accuracy of In-Office Cost System Data  
(Report Number CP-AR-18-DRAFT)

## **Recommendation #1:**

Vice President, Pricing and Costing, direct the Manager, Statistical Programs, to establish automated controls in the Computerized On-site Data Entry System Web-Based Unit that validate In-Office Cost System telephone readings are rescheduled according to policy.

## **Management Response / Action Plan**

The Postal Service partially agrees with this recommendation.

The IOCS team would like to separately address the two types of noncompliance associated with the rescheduled readings OIG has identified.

In the case of readings rescheduled on the same day of the week as the original but more than one week apart, the OIG report found "no material impact for the noncompliant rescheduled readings that occurred on the same day of the week." In some cases, when readings cannot be taken the week immediately following the original scheduled date, the reading is not rescheduled until after more than one week has passed. While the Web Base-Unit (WBU) could be modified to enforce a strict week-by-week reschedule policy, this would be more of an administrative burden that does not yield a tangible benefit for the sampling system. It punishes managers who reschedule responsibly. In other words, automated controls constitute an extraordinary remedy for a problem with "no material impact". We propose to use training and instruction to reinforce that tests should be taken as close to the original scheduled date as possible.

The rationale behind the policy statement: "If rescheduling an IOCS reading to a date in the last 7 days of a quarter, then it may be rescheduled on any day of the week" is that it is better to get a sample reading on a different day of the week than foregoing the reading altogether. It is the judgment of the Postal Service that, faced with two imperfect options, a small bias associated with a reading taken on a different day of the week is preferable to losing the data completely.

We intend to rewrite the policy so that it more clearly matches the intent, and which will match the current implementation of scheduling rules on the WBU.

Actions: Update written documentation to reflect intended policy, and issue training materials regarding rescheduling policy to reinforce that tests should be taken as close as possible to the original scheduled date.

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**Target Implementation Date:** January 2018.

**Responsible Official:** Manager, Statistical Programs

**Recommendation #2:**

Vice President, Pricing and Costing, direct the Manager, Statistical Programs, to verify employees' activities and location at the time of In-Office Cost System telephone readings and report discrepancies with Time and Attendance Collection System data to facility supervisors if corrections to clock rings are needed.

**Management Response / Action Plan**

The Postal Service partially agrees with this recommendation

The DCTs are trained to use TACS to validate the activity the respondent is clocked into if they do have such access. In other words, every reasonable effort is made to collect the best data available at the time of the reading. Note, however, that apparent discrepancies detected later may be due to edits of clock rings that could not be known to the data collector at the time of the reading. Further, not all data collectors have access to TACS.

For some of the readings that indicate that clerks/mailhandlers are off premises, the employee may be at a Detached Mail Unit (DMU). We will reinforce in training that clerks conducting mail verification are on-site at a DMU, not off premises from their base facility.

For carriers that are off premises, in addition to reinforcing the best practice that the DCT should use TACS to verify the employee's clocking status, we will begin to provide reports about clocking discrepancies to the district finance manager.

**Target Implementation Date:** January 2018

In addition, the Postal Service is working toward redesigning parts of IOCS, for example, by using a clustered sampling approach that would increase the percentage of readings that would be conducted by a data collector on-site, in order to reduce telephone readings.

**Responsible Official:** Manager, Statistical Programs

**Recommendation #3:**

Vice President, Pricing and Costing, direct the Manager, Statistical Programs, to verify all In-Office Cost System readings are transmitted to and approved in the Computerized On-site Data Entry System Web-Based Unit by the end of the quarter.

**Management Response**

The Postal Service agrees with this recommendation. The IOCS team has developed a data reconciliation process (using a spreadsheet) to validate the samples selected and data received. This process has been completed for the first three quarters of data for FY2017. This step will be added to the list of tasks to be completed at the end of each quarterly processing.

Completed: Reconciliation process already implemented.

**Recommendation #4:**

Vice President, Pricing and Costing, direct Manager, Statistical Programs, to confirm the completeness of the final In-Office Cost System data set used for cost attribution prior to submission to the Postal Regulatory Commission.

**Management Response / Action Plan**

The Postal Service agrees with the recommendation. The Postal Service will conduct data reconciliation for FY2017 before submitting data to the PRC to ensure that all IOCS data sets include all the available reading records.

**Target Implementation Date:** December 2017

**Responsible Official:** Manager, Cost Systems & Analysis

  
Sharon Owens



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