



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Management Operating Data System Flat Mail Exceptions

Management Advisory Report

Report Number
CP-MA-16-001

October 13, 2015





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

Workhour and mail volume errors for MODS Operation 179 could negatively impact Postal Service product cost reporting. A recent pilot study in Birmingham, AL, reduced MODS errors from 58 percent to 2 percent.

Background

The U.S. Postal Service initially deployed the Management Operating Data System (MODS) to collect data to evaluate plant efficiency. The Postal Service uses MODS data to assign labor costs to Postal Service products and to calculate productivities for plant operations.

New employees are initially assigned a labor code that assigns workhours to a default MODS operation number. At each MODS facility employees should be assigned a MODS base operation number to replace the default operation number. If base operation numbers are not given, workhours can be incorrectly assigned to the default operation number. MODS Operation 179 is the default for the manual processing of letters, flats, parcels, and Priority Mail. In addition to workhours, mail volume recorded in Operation 179 is automatically credited from automated flat operations; therefore, workhours should have corresponding mail volume.

The Postal Accountability and Enhancement Act of 2006 requires Postal Service products to cover their attributable costs. Some MODS-based productivities are also used in Postal Service cost avoidance models.

Our objective was to determine whether Postal Service facilities are accurately reporting MODS Operation 179 workhours and mail volume.

What the OIG Found

MODS Operation 179 workhours and mail volume are not being accurately reported. For fiscal years (FY) 2013–2014 we found errors in MODS Operation 179 related to workhours recorded without corresponding mail volume and mail volume without associated workhours.

Workhour errors occurred because management did not assign base operation numbers; therefore, workhours defaulted to MODS Operation 179. Mail volume errors occurred because MODS Operation 179 automatic credits were not updated to reflect current plant operations. Plants no longer performed MODS Operation 179 activities, but mail volume continued to be automatically credited. A recent pilot study in Birmingham, AL, reduced MODS errors from 58 percent to 2 percent. We believe the lessons learned from this study are applicable nationwide.

Additionally, Network Operations issues a weekly exception report that highlights locations with the highest number of MODS operation errors in an effort to identify those facilities with error rates generally greater than 50 percent. A lower, target threshold to highlight errors in the MODS exception report may reduce the number of default operation workhour errors.

MODS errors can impact the allocation of Postal Service labor costs to products and MODS-based productivity calculations



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used for evaluating plant operations. Further, if workhours inaccurately reported in Operation 179 should have been reported in a worksharing related operation, there could be an inaccuracy for some worksharing discounts. For all manual flat mail operations, \$316 million in labor costs were accrued and \$310 million were attributed to mail products. We identified \$51.6 million of those accrued costs as at risk for cost misallocation in FYs 2013 and 2014.

What the OIG Recommended

We recommended the vice president, Network Operations, direct the manager, Processing Operations, to implement the processes and controls established in the Birmingham, AL, pilot program nationwide; ensure facilities are assigning base operation numbers to employees to replace default operation numbers initially assigned; and in the interim, establish a target threshold for highlighting default operation number exceptions to be included in the MODS exception report.

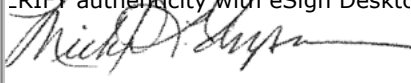
Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

October 13, 2015

MEMORANDUM FOR: LINDA M. MALONE
VICE PRESIDENT, NETWORK OPERATIONS

E-Signed by Michael Thompson
VERIFY authenticity with eSign Desktop


FROM: Michael L. Thompson
Acting Deputy Assistant Inspector General
for Technology, Investment, and Cost

SUBJECT: Management Advisory - Management Operating Data
System Flat Mail Exceptions
(Report Number CP-MA-16-001)

This advisory presents the results of our review of Management Operating Data System Flat Mail Exceptions (Project Number 15TO003CP000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Guy Sergi, acting director, Cost and Pricing, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Findings

MODS Operation 179 workhour and mail volume errors were primarily caused by a failure to reassign new employees a base operation number, not updating operation numbers when changing operations, and not updating incorrect automatic mail volume credits. As a result, we identified \$51.6 million at-risk for cost misallocation in FYs 2013 and 2014.

Introduction

This advisory presents the results of our self-initiated review of Management Operating Data System (MODS) Flat Mail Exceptions (Project Number 15TO003CP000). Our objective was to determine whether U.S. Postal Service facilities are accurately reporting workhours and mail volume for MODS Operation 179. See [Appendix A](#) for additional information about this advisory.

Our Cost and Pricing Risk Model for Quarter (Q) 1, fiscal year (FY) 2015, identified MODS Operation 179, Manual Flat Box Section, Main Office – Secondary, as one of the top five at risk operation numbers for mail volume and workhour errors (Project Number 15TPM004CP000). The Postal Service uses MODS workhour data to attribute labor costs. New employees are initially assigned a Labor Distribution Code (LDC)¹ which is mapped to a default MODS operation number. Employees at each MODS facility should be assigned a MODS base operation number to replace the default operation number. If management does not assign base operation numbers, the Time and Attendance Collection System (TACS) assigns workhours to the default² operation number when an employee does not record workhours in the MODS operation they are working. In addition to workhours, mail volume recorded in Operation 179 is automatically credited from automated flat operations; therefore, if there are workhours, there should be corresponding mail volume.

The Postal Accountability and Enhancement Act of 2006 (PAEA) requires that Postal Service products cover their attributable costs.³ Additionally, management uses MODS workhour and volume data to calculate productivities for over 70 plant operations. Some MODS-based productivities are used in Postal Service cost avoidance models.

Summary

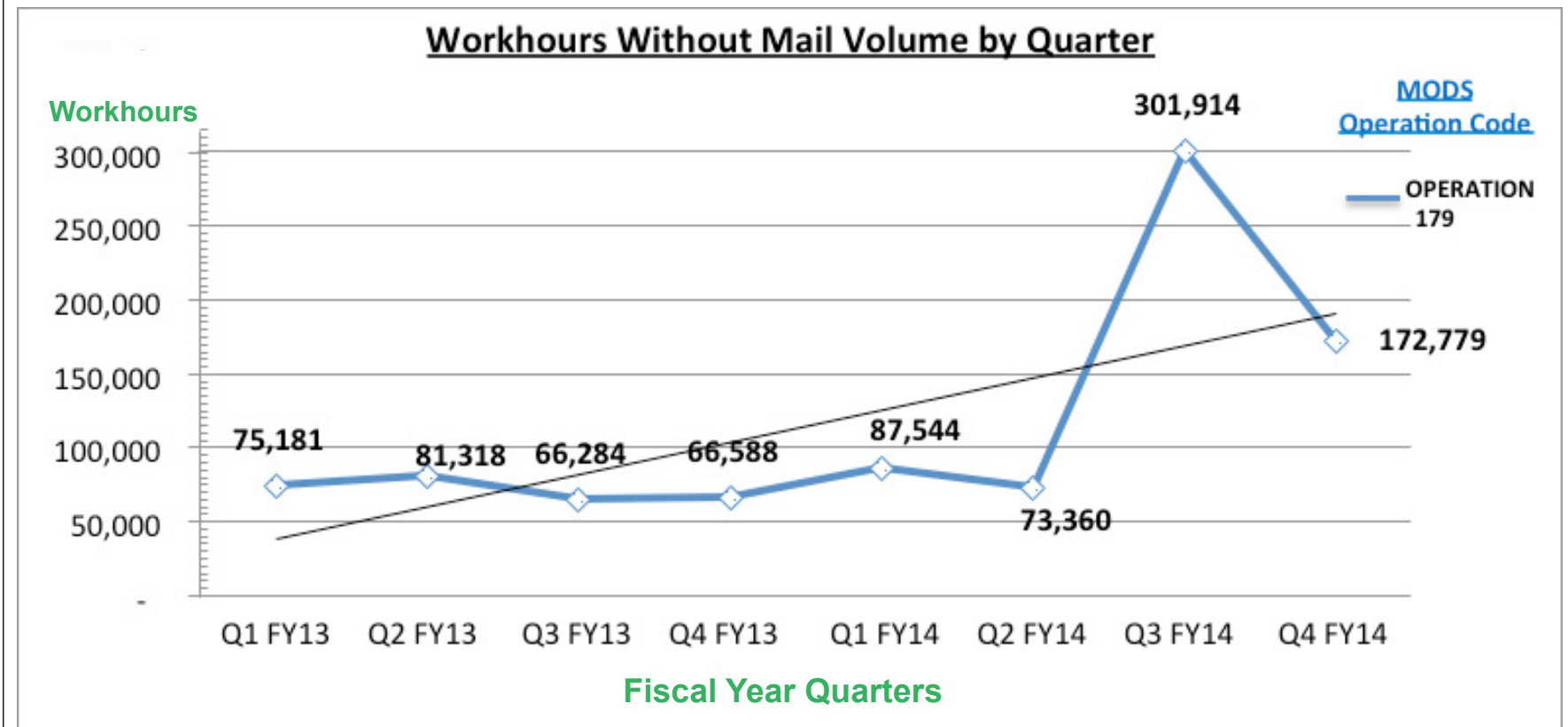
MODS Operation 179 workhours and mail volume are not being accurately reported. Over a 2-year period (FYs 2013–2014) we found errors in MODS Operation 179 related to workhours recorded without corresponding mail volume and mail volume recorded without associated workhours. Employees at each mail processing facility record workhours and mail volume for MODS Operation 179 daily. Specifically, for the 8 quarters reviewed, we found an average of 115,621 workhours per quarter recorded without corresponding mail volume and an average of 932,875 mailpieces recorded without associated workhours. These errors affect the allocation of Postal Service labor costs to products and the calculations for MODS-based productivities, used to evaluate operations. Further, if workhours inaccurately reported in Operation 179 should have been reported in a worksharing related operation, there could be an inaccuracy for some worksharing discounts. In FYs 2013 and 2014, management attributed \$37.1 million in labor costs to mail products from MODS Operation 179 workhours with no mail volume. Based on these errors, we analyzed all Manual Flat operations for FY 2013 and FY 2014 and calculated an error rate of 5.15 percent for workhours with no mail volume, resulting in an estimated \$14.5 million in labor costs attributed to mail products. We identified \$51.6 million at risk for cost misallocation in FYs 2013 and 2014.

-
- 1 A 2-digit number used to describe the major work assignments at a Postal Service facility. The first digit identifies a functional area. For example, Function 1 is mail processing and Function 2 is delivery operations. The second digit identifies a work activity within the functional area. LDC 14 is the manual processing of letters, flats, parcels, and Priority Mail at a facility.
 - 2 Using default operation numbers ensures each employee is paid even if they are not assigned an operation number.
 - 3 Revenue earned from postal products which covers attributable product costs is commonly referred to as 'cost coverage.' PAEA Section 3622(c) (2) specifies that market dominant and competitive products should cover their attributable costs.

Workhours Without Mail Volume

Of 1,245,491 total workhours recorded in Operation 179 over a 2-year period (FYs 2013–2014) there were 924,968 workhours with no corresponding mail volume. An average of 115,621 workhours per quarter recorded without corresponding mail volume occurred because employees were assigned Operation 179 as their TACS default base operation number. When working in other operations, they did not correctly clock into those operations. Table 1 shows the increase in MODS Operation 179 workhours without mail volume over the 2-year period. Mail volume without workhour errors in Q3 FY, 2014 increased primarily because the Chicago International Service Center (ISC) began using MODS Operation 179 as its default base operation number. When errors for MODS Operation 179 began to accumulate rapidly, the Chicago ISC decided that Operation 179 was not an appropriate operation number and deactivated this operation.

Table 1. Quarterly MODS Errors for Operation 179



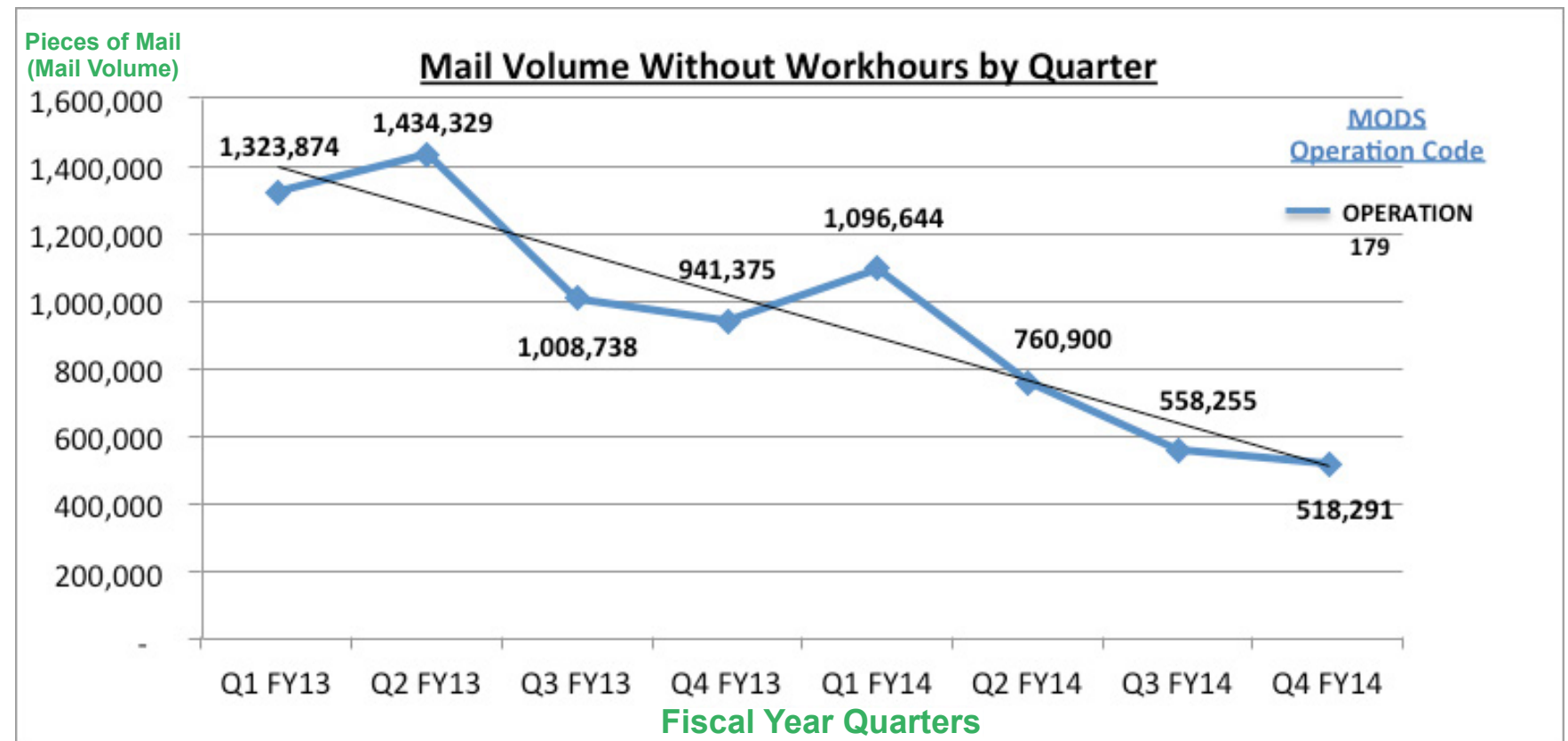
Source: Postal Service Electronic Data Warehouse (EDW).

Workhours with no corresponding mail volume errors could affect the allocation of Postal Service labor costs to products.

Mail Volume Without Workhours

Over the 2-year period (FYs 2013–2014), mail volume with no workhours reported in MODS Operation 179 totaled 7,642,406 mailpieces. This error may occur when a mail processing facility no longer works MODS Operation 179 mail (primarily flat-shaped mail), but the facility fails to deactivate associated operation numbers and mail volume continues to be automatically credited. Table 2 shows MODS Operation 179 mail volume without workhours over the 2-year period.

Table 2. Quarterly MODS Errors for Operation 179



Source: EDW.

Mail volume without workhours has decreased over the 2-year period (FYs 2013–2014) but these errors still represent an average of 932,875 mailpieces recorded without workhours each quarter. Mail volume with no associated workhours can affect the Postal Service’s productivity calculations used to evaluate operations. Further, if workhours inaccurately reported in Operation 179 should have been reported in a worksharing related operation, there could be inaccuracies for some workshare discounts.

To determine the causes of the issues identified above, we examined MODS Operation 179 reporting at 20 judgmentally selected Postal Service mail processing plants. We found that:

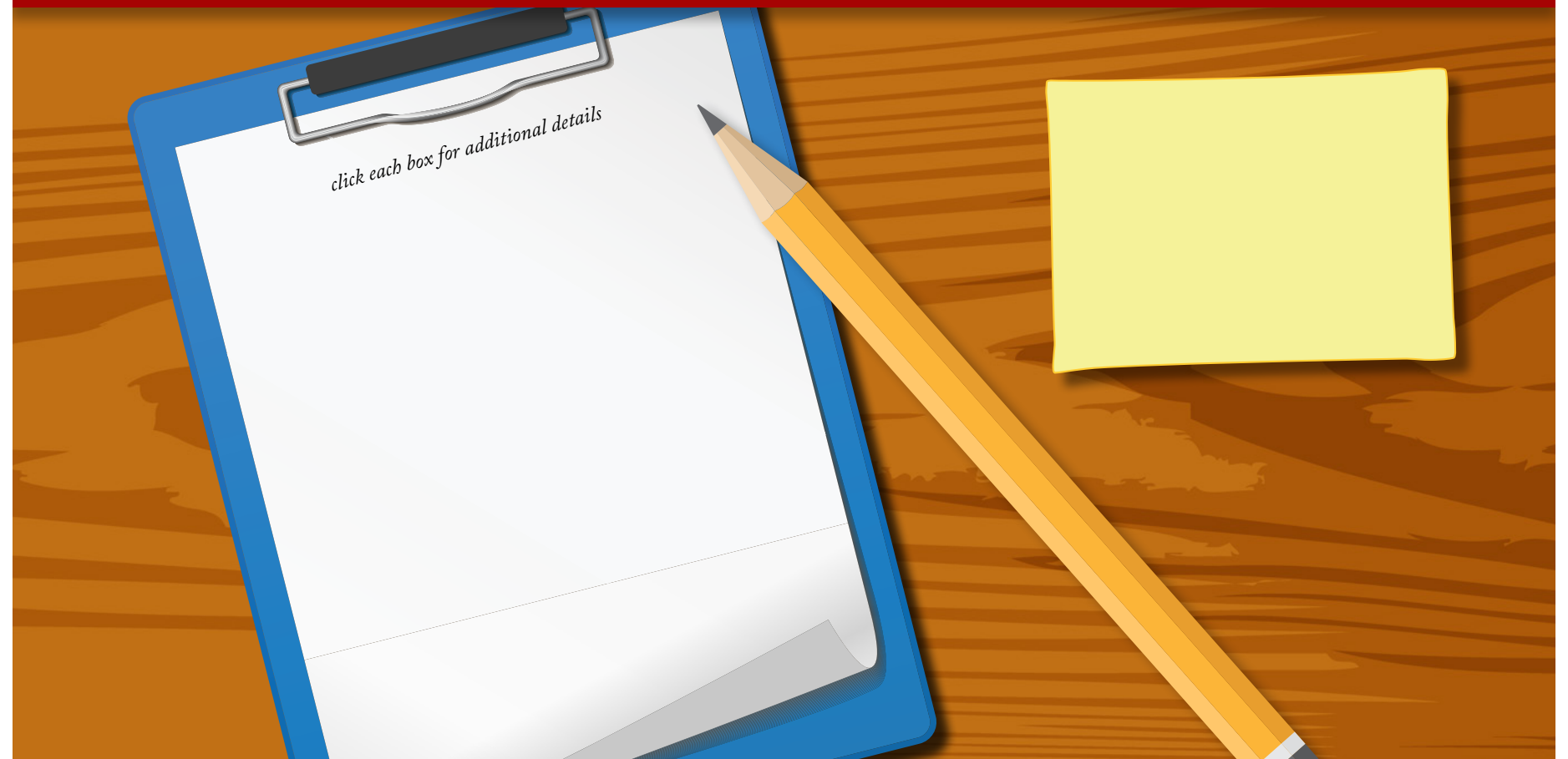
- Management did not assign a base operation number at nine locations; therefore their workhours defaulted to MODS Operation 179. MODS Operation 179 is the TACS default operation number for manual distribution of letters, flats, parcels, and Priority Mail. In FY 2016, we will monitor default operation numbers in our Cost and Pricing risk model.
- At another nine locations, employees were not using the correct MODS operation number when they changed operations and managers were not ensuring correct clock ring procedures were being followed. Clock ring procedures require employees to change their 3-digit MODS operation number as they move to different MODS operations.
- At four locations, management stated that MODS Operation 179 automatic credits⁴ were not updated to reflect current plant operations. This caused mail volume to be credited to MODS Operation 179 without corresponding workhours.

⁴ Automatic credits are automatically assigned mail volume based on annual surveys at each mail processing facility.

As part of Delivering Results, Innovation, Value, and Efficiency (DRIVE) Initiative 47, Greenfield Costing⁵, a MODS pilot study was conducted at the Birmingham, AL, Processing and Distribution Center (P&DC) in FY 2014. The project reduced MODS errors at the Birmingham P&DC from 58 percent to 2 percent as of Q2, FY 2015. During this limited study, the Postal Service found that updating mail volume automatic credits reduced the majority of the errors. Errors were further reduced by:

- Having managers perform timely updates to MODS data and supervise employee operation movements.
- Creating new MODS error reports.
- Making MODS operations training easily accessible to employees.
- Ensuring Human Resources makes appropriate base operations assignments for new employees.

In a recent pilot study, the Postal Service identified opportunities to improve the reliability of their MODS workhour and mail volume data by:



⁵ DRIVE Initiative 47 is an ongoing strategy to develop a versatile and dynamic costing system. The Greenfield Method is an alternative cost allocation method the Postal Service will use to improve its current cost segmentation system and identify future cost reduction and profitability opportunities.

Currently, facility management must submit a request to the TACS help desk to reassign a base operation number to employees. Granting facility management system access to reassign employee base operation numbers would expedite the process and could reduce workhour with no mail volume errors.

Additionally, Network Operations issues a weekly MODS exceptions⁶ report to all MODS facilities nationwide. This report highlights locations with the highest number of weekly MODS operation errors in an effort to identify those facilities with error rates generally greater than 50 percent. By design, default operation numbers like MODS Operation 179 accumulate a high number of workhours. A lower, target threshold for highlighting MODS operation errors in the MODS exception report may reduce the number of default operation workhour errors.

Reliable MODS data is essential for the accurate attribution of labor costs. Overall, these errors could affect either Postal Service labor cost allocations or MODS-based productivity calculations used to evaluate operations. Further, if workhours inaccurately reported in Operation 179 should have been reported in a worksharing related operation, there could be an inaccuracy for some worksharing discounts.

In FYs 2013 and 2014, management attributed \$37.1 million in labor costs to mail products from MODS Operation 179 workhours with no mail volume. Based on these errors, we analyzed all manual flat operations for FYs 2013 and FY 2014 and calculated an error rate of 5.15 percent for workhours with no mail volume, resulting in an estimated \$14.5 million in labor costs attributed mail products. As a result, mail products handled in MODS Operation 179 received an inaccurate allocation of labor costs.

Overall, for all manual flat mail operations, \$316 million in labor costs were accrued. Of this amount \$310 million was attributed to mail products. We identified \$51.6 million of those accrued costs to be at risk of misallocation in FYs 2013 and 2014.

6 MODS exceptions are defined as 'operations which require both mail volume and workhours but are missing either the mail volume or workhours'.

Recommendations

We recommend management implement the processes and controls established in the Birmingham P&DC pilot program nationwide; ensure facilities are assigning base operation numbers to employees to replace default operation numbers initially assigned; and establish a target threshold for highlighting default operation number exceptions to be included in the MODS exception report.

We recommend the vice president, Network Operations, direct the manager, Processing Operations, to:

1. Implement the processes and controls established in the Birmingham, AL, Processing and Distribution Center pilot program nationwide.
2. Ensure facilities are assigning base operation numbers to employees to replace default operation numbers initially assigned.
3. Establish a target threshold for highlighting default operation number exceptions to be included in the Management Operating Data System exception report.

Management's Comments

Management agreed with our findings and recommendations but disagreed with our estimate that \$51.6 million in costs were at risk of misallocation. Management also disagreed with our finding that the Postal Service attributed \$316 million in labor costs to flat mail products.

The Postal Service plans to implement Birmingham, AL, P&DC processes and controls nationwide by January 2016.

The MODS team is currently working to improve the process for assigning base operations numbers to replace existing default operation numbers and plans to have the improved process in place by January 2016.

Finally, the Postal Service will update its weekly MODS exception report to reflect the 10 percent target threshold for highlighting default operation number exceptions, beginning in October 2015.

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

Evaluation of Management's Comments

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

Management disagreed that the Postal Service misallocated \$51.6 million in costs. First, our report did not claim misallocated costs; the OIG found that \$51.6 million were at risk for misallocation based on our findings. Second, management stated that inaccurate MODS Operation 179 workhours have an immaterial impact on product cost allocation. We agree that the methodology⁷ used to attribute labor costs to products can partially mitigate the risk of misallocation; however, the methodology used depends on sampling, which itself has limitations. Therefore, if labor costs are put into the wrong cost pool the accuracy of the Postal Service's sampling methodology is a more critical determinant of cost allocation.

Management also noted an error in the report which stated that the Postal Service attributed \$316 million in labor costs to flat mail products. They are correct and we have updated the report to show that \$316 million in labor costs were accrued in manual flat mail operations and \$310 million of those costs were attributed to mail products.

⁷ The Postal Service uses a sampling technique to estimate the portion of labor costs that should be assigned to specific mail products.

Appendices

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Appendix A: Additional Information

Background

The MODS system is a web-based application that collects data from two Postal Service information systems — TACS and Web End-of-Run (WebEOR) — to evaluate plant efficiency. TACS is an automated timekeeping system that collects employee data used to develop MODS workhours. WebEOR is a web-based application used to collect mail volume counts from automated and mechanized⁸ mail processing equipment. For non-automated mail processing activities, such as manual operations, mail volume estimates are calculated as a percentage of WebEOR mail volume from mechanized and automated operations that flow mail to manual operations.

Employee badge readers are located throughout Postal Service facilities. When employees work at an activity they clock in and enter the 3-digit MODS operation number associated with that activity. For payroll purposes, each employee is assigned a base operation number or a default operation number. If employees clock into an operation but do not enter an operation number, TACS records their workhours in their base or default operation number.

Workhours and mail volume recorded in TACS and WebEOR are captured in MODS and used by the Postal Service Cost Attribution group under Regulatory Reporting and Cost Analysis. The Cost Attribution group primarily uses MODS data in costing activities and to calculate MODS-based productivities. In costing, MODS workhours are used to assign clerk and mailhandler labor costs to mail processing cost pools. In FY 2014, about \$13.6 billion in clerk and mailhandler labor costs were attributed to products using MODS workhour allocations. Overall, labor costs make up about 80 percent of total Postal Service costs.

Objective, Scope, and Methodology

Our audit objective was to determine whether Postal Service facilities are accurately reporting MODS Operation 179 workhours and mail volume. To accomplish this we:

- Identified manual flats MODS operation numbers that are of concern based on a review of the Q1, FY 2014, Cost and Pricing risk model.
- Gathered and analyzed MODS data for the identified manual MODS operation numbers for a 2-year period.
- Identified the top Postal Service mail processing facilities that are reporting anomalies.
- Interviewed in-plant support personnel from identified facilities to determine why the anomalies are occurring.
- Interviewed headquarters Cost Attribution staff to determine whether the identified anomalies have a significant impact on cost allocation of letters and flats.

We conducted this review from March through October 2015, 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 review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective. We discussed our observations and conclusions with management on August 31, 2015, and included their comments where appropriate.

8 Mechanization refers to semi-automated mail processing.

We did not assess the reliability of any computer-generated data for the purposes of this advisory.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this advisory.

Appendix B: Management's Comments

LINDA M. MALONE
VICE PRESIDENT, NETWORK OPERATIONS



October 5, 2015

LORI LAU DILLARD
Director, Audit Operations

SUBJECT: Management Operating System Flat Mail Exceptions (Report
Number CP-MA-15-DRAFT)

Management agrees that there are opportunities to correct inaccuracies associated with workhours and mail volumes associated with MODS Operation 179 and appreciates the thorough review by the USPS Office of Inspector General (OIG). The inaccuracies occurred largely because base operation numbers were not assigned; therefore workhours defaulted to Operation 179. Management realizes that extensive MODS errors have the potential to materially impact MODS- based productivity calculations which are used to evaluate plant operations and as inputs into workshare discount models.

Management strongly disagrees with the report's claims that the inaccuracies associated with Operation 179 result in an estimated \$51.6 million in misallocated costs for manual flat products. In fact, the inaccuracies from Operation 179 result in an immaterial impact on product cost attribution.

The concern of the OIG regarding misallocation and inaccuracy of workshare discounts would be valid if the Postal Service distributed costs in the manual flats pool only to manually sorted flat mail. But that is not the current methodology approved by the Postal Regulatory Commission. In fact, the approved methodology does not assign all relevant costs for the hours reported in the manual flats cost pool to flat-shaped products.¹ Moreover, the current methodology makes no assumption as to the magnitude of costs for the hours

¹On p. 6, the report states "for all manual flat operations, \$316 million in labor costs were attributed to flat mail products" in FY2013-2014. In fact, the accrued cost in the manual flats cost pool was \$316.9 million, while total attributable cost (costs assigned to mail products) was \$310.4 million. Of the \$310.4 million, \$244.5 million was assigned to market dominant flat products. See Docket Nos. ACR2013 and ACR2014, USPS-FY13-7, USPS-FY14-7.

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reported in the manual flats cost pool that are assigned to flat shaped products. Rather, the factors (distribution keys) that distribute attributable costs to products are based on In-Office Cost System (IOCS) tallies which reflect the actual work activities being carried out by employees clocked into manual flats operations. IOCS tallies of manual flats MODS operations do predominantly show handling of flat-shaped mail. However, if workhour recording errors lead to some employees actually handling mail in a letter or parcel operation while clocked into a manual flats operation, then the tallies will distribute the associated costs to those letter or parcel products, not to flats products. This result occurs because, as noted, the tallies are divided into the sets from which the distribution factors are calculated based on the operation into which the employee was clocked at the time of the IOCS reading. Thus, workhour errors do not lead to biased product costs or workshare discounts under current mail processing methodologies.

Management fully comprehends that correcting workhour inaccuracies associated with operation numbers may result in improved cost management practices. As a result, management agrees with the recommendation of the OIG. However, simply shifting the same quantity of workhours to several other operations will have no material impact on product costs.

While not a specific recommendation, the Postal Service intends to review screening methods for operation 179 data to ensure that productivities are as accurately measured as practicable for workshare cost avoidance models.

Recommendation 1:

Implement the process and controls established in the Birmingham AL, Processing and Distribution Center pilot program nationwide.

Management Response/Action Plan:

Management agrees with the recommendation. LSS project is currently in replication.

Target Implementation Date:

January 2016

Responsible Management Official:

Manager, Processing & Distribution Center Operations

Recommendation 2:

Ensure facilities are assigning base operation numbers to employees to replace default operation numbers initially assigned.

Management Response/Action Plan:

Management agrees with the recommendation. MODS team is currently working with HRSSC and TACS to improve the process.

Target Implementation Date:

January 2016

Responsible Management Official:

Manager, Processing & Distribution Center Operations

Recommendation 3:

Establish a target threshold for highlighting default operation number exceptions to be included in the Management Operating Data System exception report.

Management Response/Action Plan:

Management agrees with the recommendation. Weekly report for FY 2016 will be updated to reflect Target 10% for the Plants.

Target Implementation Date:

October 2015

Responsible Management Official:

Manager, Processing & Distribution Center Operations


Linda M. Malone

cc: Mr. Williams

Corporate Audit and Response Management



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