



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Cost Segment 14 - Transportation



Audit Report

Report Number
CP-AR-17-003

December 6, 2016





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

Opportunities exist to ensure transportation cost data is accurate and complete and enhance the documented process for preparing the Transportation Cost Segment.

Background

The Postal Accountability and Enhancement Act of 2006 requires the U.S. 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 costs, revenue, rates, and quality of service for all products and determines whether each product is covering its attributable costs, which are costs directly or indirectly caused by that product.

The Postal Service develops the cost segments report as part of the ACR filing. In fiscal year (FY) 2015, there were 17 active cost segments. One of them, Transportation, includes the cost of contracted air, highway, rail, and water.

Our objective was to assess whether the inputs into the Transportation Cost Segment were accurately calculated, recorded, and attributed to products in FY 2015. This is one in a series of cost segment audits based on its significance to the Postal Service.

What the OIG Found

The Postal Service correctly assigned expense accounts to the Transportation Cost Segment for FY 2015. However, opportunities exist to ensure transportation cost data is accurate and complete and enhance the documented process for preparing the Transportation Cost Segment.

The Postal Service did not accurately calculate attributable costs for the Transportation Cost Segment. An expense account from the attributable costs calculation was omitted, which resulted in an \$814,000 understatement. The understatement was .014 percent of the total cost attributed to the Transportation Cost Segment.

Although the exception did not have a material impact on reporting the FY 2015 Transportation Cost Segment data, such errors increase the risk of inaccurate cost data reports.

During this audit, management took corrective action to update the formula for FY 2016 attributable costs calculation. Management indicated they will inform the PRC of the error when updating the FY 2016 ACR notes, which are due on December 29, 2016. As a result, we are not making a recommendation for this issue but will follow up to ensure corrective action was taken as described.

The Postal Service relied on current documented procedures and the experience and knowledge of postal personnel to prepare the Transportation Cost Segment calculations. However, the procedures could be improved by including a list of relevant and accessible studies to calculate transportation costs, steps to extract Postal Service accounting data to perform manual account adjustments, and documented changes that could affect the Transportation cost calculations. These improvements would likely have not prevented the error



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

discussed previously because the error was mistakenly omitted and not directly tied to the procedures needed to prepare the cost segment calculations.

Well-defined and documented procedures would allow the Postal Service to prepare the Transportation Cost Segment in a consistent manner, preserve institutional knowledge, and have a training guide for new employees.

What the OIG Recommended

We recommended management enhance the current documented procedures for preparing the Transportation Cost Segment.

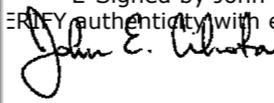
Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

December 6, 2016

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

E-Signed by John Cihota
VERIFY authenticity with eSign Desktop


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

SUBJECT: Audit Report – Cost Segment 14 - Transportation
(Report Number CP-AR-17-003)

This report presents the results of our audit of Cost Segment 14 - Transportation (Project Number 16BG016CP000).

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 and Response Management

Table of Contents

Cover	
Highlights.....	1
Background.....	1
What the OIG Found.....	1
What the OIG Recommended.....	2
Transmittal Letter.....	3
Findings.....	5
Introduction.....	5
Summary.....	5
Attributable Costs Calculation.....	6
Documented Procedures.....	7
Recommendation.....	9
Management’s Comments.....	9
Evaluation of Management’s Comments.....	9
Appendices.....	10
Appendix A: Additional Information.....	11
Background.....	11
Objective, Scope, and Methodology.....	12
Prior Audit Coverage.....	13
Appendix B: Management’s Comments.....	14
Contact Information.....	16

Findings

The Postal Service relied on documented procedures and the experience and knowledge of personnel to calculate, record, and attribute costs to products.

Introduction

This report presents the results of our self-initiated audit¹ of the U.S. Postal Service's Transportation Cost Segment (Project Number 16BG016CP000). Our objective was to assess whether inputs into the Transportation Cost Segment were accurately calculated, recorded, and attributed to products. See [Appendix A](#) for additional information about this audit.

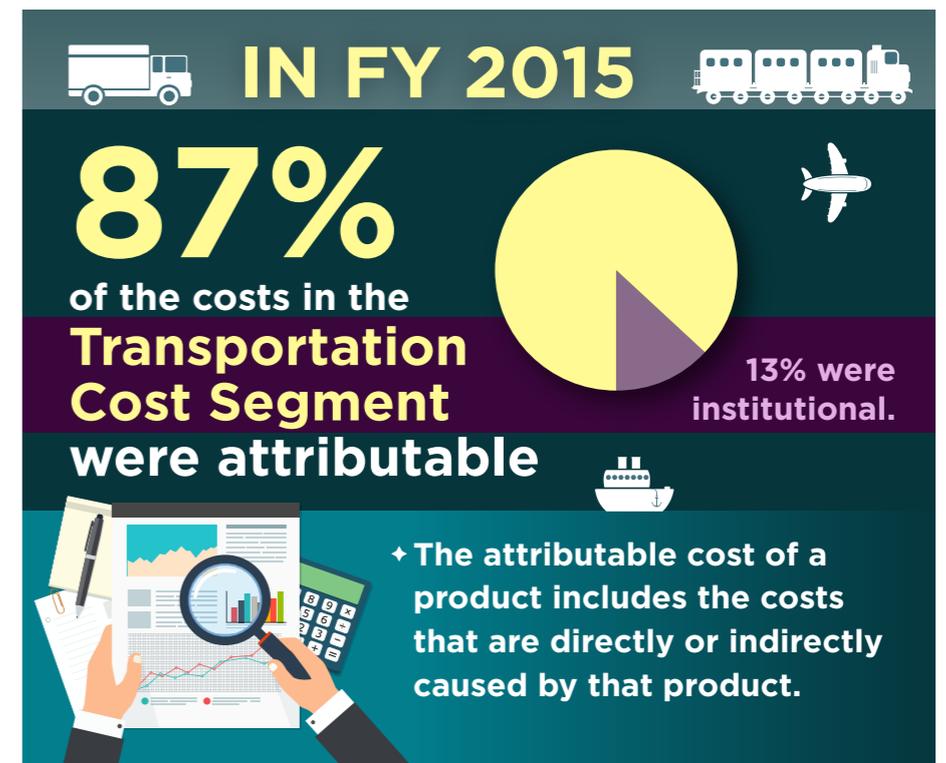
The PAEA requires the Postal Service to file an *Annual Compliance Report (ACR)*² with the Postal Regulatory Commission (PRC)³ within 90 days of the end of each fiscal year. The ACR analyzes costs, revenue, rates, and quality of service for all products and determines whether each product is covering its attributable costs.⁴

The *Summary Description of USPS Development of Costs by Segments and Components* (Summary Description) report is a summary of the Postal Service's approach to costing. The *Cost Segments and Components* report identifies the total costs attributable to Postal Service products, and the results are used to prepare the *Cost and Revenue Analysis (CRA)* report. The CRA report compares attributable costs to revenue, by product, to determine whether each product's revenue covers its cost.⁵ In fiscal year (FY) 2015, the Postal Service reported 17 active cost segments that aligned with the postal system of accounts.⁶

The Transportation Cost Segment covers the contract costs for air, highway, rail, and water transportation. Management calculates the portion of accrued transportation costs that are attributable to products using methodologies developed from variability studies.⁷ The costs are then allocated to individual mail products based on statistical information from the Transportation Costs Systems (TRACS)⁸ and Surface Air Management System (SAMS)-Alaska.⁹ In FY 2015, 87 percent of the costs in the Transportation Cost Segment were attributable, and 13 percent were institutional.

Summary

The Postal Service correctly assigned expense accounts to the Transportation Cost Segment for FY 2015. However, opportunities exist to ensure that transportation cost data is accurate and complete and to enhance the documented process guiding the preparation of the Transportation Cost Segment.



- 1 We performed this review as part of our mandate under the Postal Accountability and Enhancement Act of 2006 (PAEA) to audit the data collection systems and procedures the Postal Service uses in its rate-making process.
- 2 39 U.S.C § 3652(a).
- 3 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.
- 4 The attributable cost of a product includes the costs that are directly or indirectly caused by that product.
- 5 PAEA requires each class of mail to cover its attributable costs.
- 6 The Postal Service's system of accounts is an 8-digit account numbering system consisting of a 5-digit primary code and a 3-digit sub-account code that is documented in the Account Number Control Master.
- 7 The studies provide the methodology used to support the variability factors for the attributable costs calculation and are approved by the PRC.
- 8 A data collection system that provides information to estimate total volume (cubic feet) per mile for different price categories of mail transported by rail and highway, and total weight per mail for different categories of mail transported by air.
- 9 A database that contains mail that originates and ends in Alaska.

The Postal Service did not accurately calculate attributable costs for the Transportation Cost Segment. It omitted an expense account from the attributable costs calculation, which resulted in an \$814,000 understatement. The understatement was .014 percent of the total cost attributed to the Transportation Cost Segment. Although it did not have a material impact on reporting the FY 2015 Transportation Cost Segment data, such errors increase the risk of inaccurate cost data reports.

During this audit, management took corrective action to update the appropriate formula for FY 2016. Management indicated they will inform the PRC of the error when updating the FY 2016 ACR notes, which are due on December 29, 2016. As a result, we are not making a recommendation for this issue but will follow up to ensure corrective action was taken as described.

The Postal Service relied on current documented procedures and the experience and knowledge of personnel to prepare the Transportation Cost Segment. However, our analysis found the procedures could be improved by including:

- A list of relevant and accessible variability studies for the attributable costs calculation.
- Detailed steps to extract data from the Enterprise Data Warehouse (EDW)¹⁰ to perform manual account adjustments.
- Documented changes that could affect transportation cost calculation.

These improvements would likely have not prevented the error discussed previously because the error was mistakenly omitted and not directly tied to the procedures needed to prepare the cost segment calculations. However, well-defined and documented procedures would allow the Postal Service to prepare the Transportation Cost Segment in a consistent manner, preserve institutional knowledge, and have a training guide for new employees.

Attributable Costs Calculation

The Postal Service incorrectly calculated the attributable costs for the peak network cost pool.¹¹ Postal Service personnel omitted the Domestic Air-Supplemental Airline Haul account from the attributable cost calculation formula. This account is used to record the expense of leasing capacity to move domestic mail by air under a supplemental contract and where the amount paid is based upon a per pound rate for the actual weight hauled. The costs associated with this account are used to obtain transportation total accrued costs.¹² These costs are then allocated to individual mail products. Therefore, if account costs are not accurately captured, the attributable costs are inaccurate. As a result, costs attributable to the Transportation Cost Segment were understated by \$814,000.

The error did not have a material impact on the reporting of Transportation Cost Segment data for FY 2015, as this amount represented .014 percent of the total \$5.7 billion in attributable costs for the Transportation Cost Segment. However, the impact could have been material if the account had a higher balance.

During this audit, management updated the formula for the FY 2016 attributable costs calculation to include the account omitted in the FY 2015 calculation. In addition, management indicated they will inform the PRC of the error when updating the FY 2016 ACR notes, which are due on December 29, 2016. As a result, we are not making a recommendation for this issue but will follow up to ensure corrective action was taken as described.

¹⁰ A repository for all data and the central source for information on retail, financial, and operational performance.

¹¹ Air transportation that operates during the holiday season to provide airlift for peak mail volumes.

¹² Accrued cost is the cost of goods or services received or incurred during a specific period.

Documented Procedures

The Postal Service relied on documented procedures and the experience and knowledge of personnel to calculate, record, and attribute costs to products. It used the FY 2015 Summary Description report, the *Preface of FY 2015 CRA “B”* workpapers, the Microsoft Excel formulas and the “Doc” worksheet within the Transportation Cost Segment workbook as the documented procedures for attributing¹³ and distributing¹⁴ transportation costs.

The Summary Description report described in summary form the approach to costing employed by the Postal Service with specific reference to the CRA report for FY 2015. It showed dollar figures and their development from the perspective of Postal Service costing concepts and objectives.

The *Preface of FY 2015 CRA “B”* workpapers inputs and calculates costs by cost segment.

The Transportation Cost Segment workbook contained formulas within certain cells to link source data used to compute product costs. Also, the “Doc” worksheet within the workbook included a brief description of the purpose and methods used in each worksheet within the workbook. For example, the “Adjustments” worksheet stated the purpose of the worksheet and the source of the data.

Management indicated that the current documented procedures were sufficient for a new employee and the attribution and distribution process was only performed by experienced personnel.

However, our analysis found that vital steps were missing from the documented procedures. The procedures could be improved by including:

- A list of relevant and accessible variability studies to support the calculation of attributable costs. The workbook contains the variability factors, which should be derived from variability studies. However, management did not maintain the studies to support the variability factors. The variability studies are stored in various PRC dockets.¹⁵ These studies were not easily accessible and there was no guidance on how to obtain them, making it difficult for third-party reviews – such as management reviews, quality control reviews, and external audits – to validate the accuracy of the attributable costs calculation. Management took over 6 weeks to locate the studies for our audit. But once the studies were found, we were able to confirm that management correctly applied the variability factors from the variability studies to obtain the attributable costs.
- Steps on how to extract EDW data to perform manual account adjustments. The manual adjustment process includes multiple steps to ensure all attributable costs (such as taxes, penalties, or rebates) are appropriately captured. For example, finance numbers are needed to extract detailed expense reports from EDW for Air Transportation. However, the Cost Attribution team¹⁶ indicated the finance numbers and specific steps are not documented because the current staff are very familiar with the process and know which finance numbers to use.

¹³ Attributing is the process of calculating volume variable and product specific transportation costs that are associated with a mail product. Volume variable costs are those that change with mail volume and operational activities.

¹⁴ Distributing is the process of allocating volume variable and product specific costs to individual mail products.

¹⁵ A docket is the formal name for a public record that holds all documents and materials related to a PRC proceeding.

¹⁶ Postal Service employees from the Pricing and Costing functional area who prepare the Transportation Cost Segment calculations.

- Documented changes that could affect cost allocation within the Transportation Cost Segment workbook. For example, the Postal Service no longer uses the miscellaneous transportation account under the Rail Transportation component group.¹⁷ Instead this account is used in the Highway Transportation component group. However, the account code¹⁸ was not updated to reflect the changes. Although the formula accurately captured the miscellaneous transportation expense in the Highway Transportation component group, this could cause a potential discrepancy between rail and highway costs if a staff member is not aware of this change.

Having well-defined and documented procedures would allow staff to perform the task in a consistent manner that meets organizational needs and prevents loss of institutional knowledge. These procedures could also serve as a training guide for new employees, as experienced staff separate from the Postal Service, and ensure that the Transportation Cost Segment calculations are complete and accurate.

¹⁷ Cost component groups are sets of components within a cost segment. The Transportation Cost Segment contains four cost component groups: Air Transportation, Highway Transportation, Rail Transportation, and Water Transportation.

¹⁸ The account codes are used internally by the Cost Attribution team to map costs to the appropriate cost component groups.

Recommendation

We recommend management enhance the current documented procedures to ensure the Transportation Cost Segment is consistently prepared and prevents loss of institutional knowledge. The procedures should include a list of relevant and accessible variability studies; steps for extracting financial data to perform account adjustments; and documented changes that could affect allocation of costs.

We recommend the vice president, Pricing and Costing:

1. Enhance the current documented procedures to ensure the Transportation Cost Segment is consistently prepared and prevents loss of institutional knowledge. The procedures should include a list of relevant and accessible variability studies; steps for extracting financial data to perform account adjustments; and documented changes that could affect allocation of costs.

Management's Comments

Management agreed with the finding and recommendation.

Regarding the recommendation, management agreed to enhance the current documented procedures. Specifically, management will augment the Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 2016, to comply with the Commission's Order No. 3506. Management also agrees to improve documented procedures needed to extract accounting data to perform manual adjustments and document any input or method changes used in the workpapers. The target implementation date is July 1, 2017.

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

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendation in the report and corrective actions should resolve the issues identified in the report. All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendation 1 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendices

*Click on the appendix title
to the right to navigate
to the section content.*

Appendix A: Additional Information	11
Background	11
Objective, Scope, and Methodology	12
Prior Audit Coverage	13
Appendix B: Management’s Comments.....	14

Appendix A: Additional Information

Background

The Postal Service is required to “analyze costs, revenues, rates, and quality of service” and report to the PRC no later than 90 days after the end of each fiscal year. To comply, the Postal Service files the ACR with the PRC within 90 days of each fiscal year end.

The Summary Description report documents the procedures used to prepare the CRA report. An objective of the Summary Description report is to report total costs attributable to Postal Service products and services. Costs are either directly attributable to mail products or categorized as institutional costs. Attributable costs are the sum of volume variable and product-specific costs that are associated with a mail product. Institutional costs are costs that cannot be directly or indirectly assigned to any mail product. The attributable costs are then allocated to individual mail products. Only the attributable portion of costs are assigned to products. The CRA compares attributable costs to revenue to determine whether each product’s revenue covers its cost. Results of this comparison are included in the ACR.

The Summary Description report breaks costs down into cost segments, which correspond to major divisions of the postal system of accounts. In FY 2015, the Postal Service reported 17 active cost segments. The Transportation Cost Segment includes contract costs for air, highway, rail and water transportation. Between FY 2013 and FY 2015, the Transportation Cost Segment made up about 9 percent of total Postal Service costs. The breakdown for the Transportation Cost Segment is shown in Table 1.

Table 1. Cost Segment 14 Total Cost Percentage Transportation Costs Compared to Total Costs (Thousands)

Costs	FY 2013	FY 2014	FY 2015
Segment 14 Total Costs	\$6,734,659	\$6,586,090	\$6,579,078
Segment 1-20 Total Costs	\$72,318,863	\$73,361,925	\$74,010,886
Percentage of Total Costs	9.31%	8.98%	8.89%

Source: Postal Service *Public Cost Segments and Components Report*, FY 2013 through FY 2015.

The Transportation Cost Segment is divided into two groups: Domestic Transportation and International Transportation. Transportation costs for FY 2015 are summarized by component group in Table 2 and by cost component group¹⁹ in Table 3.

Table 2. FY 2015 Transportation Costs by Component Group (Thousands)

Component Group	Accrued	Attributable	Institutional
14.1 Domestic Transportation	\$5,806,331	\$4,982,713	\$823,618
14.2 International Transportation	772,747	772,747	--
Total	\$6,579,078	\$5,755,460	\$823,618

Source: Postal Service *Summary Description of USPS Development of Costs by Segments and Components*, FY 2015.

¹⁹ Cost component groups are sets of components within a cost segment. Highway Transportation is an example of a cost component within cost segment 14 that contains several cost elements.

Table 3. FY 2015 Transportation Costs by Mode of Transportation (Thousands)²⁰

Cost Component Group	Market Dominant	Competitive	International	Other Costs	Total
Air (Incl. Alaska)	\$508,964	\$1,445,605	\$86,768	\$109,465	\$2,150,802
Highway	1,421,799	1,362,098	93,503	712,963	3,590,363
Railroad	29,143	12,682	1,159	421	43,405
Water	11,024	9,617	350	769	21,760
International	—	—	772,747	—	772,747
Total Costs ²⁰	\$1,970,930	\$2,830,003	\$954,527	\$823,618	\$6,579,078

Source: Postal Service *Public Cost Segments and Components Report*, FY 2015.

The Postal Service develops annual cost reporting for the Transportation Cost Segment using PRC approved methodologies. Reporting is done using a variety of operational and statistical information. Data collected and analyzed to prepare the Transportation Cost Segment workbook comes from sources such as TRACS, EDW, and SAMS. Additional information is obtained from variability studies, which are used to calculate attributable costs. The PRC's FY 2015 Annual Compliance Determination²¹ did not mention any outstanding issues or contain any comments concerning the current status of the Transportation Cost Segment variability studies.

Objective, Scope, and Methodology

Our objective was to assess whether the inputs to Transportation Cost Segment were accurately calculated, recorded, and attributed to products. The scope of this project included transportation costs for domestic market dominant and competitive products for FY 2015. Market dominant products are mail products and services that the Postal Service has sufficient market power over that it can effectively set their prices with limited competition. Mail products and services are considered to be competitive if similar products and services are offered by private sector carriers.

To accomplish our objective, we:

- Identified the data collection systems and procedures used to prepare the Transportation Cost Segment in the *Cost Segments and Components* report.
- Identified processes, guides, and checklists for how data is obtained and validated, and whether calculations are correct.
- Interviewed Postal Service personnel to determine how data for the costing systems are obtained and entered if any part of the process is done manually.
- Identified relevant transportation variability studies and determined whether appropriate variability factors were used.

²⁰ Cost Segment 14 totals taken directly from FY 2015 *Cost Segments & Components Report*.

²¹ This report reviews the Postal Service's performance and fulfills the service mandated by PAEA.

- Determined whether current data was used to prepare the FY 2015 ACR and the Transportation Cost Segment workbook.
- Compared data inputs to related workpapers to gauge the accuracy of the data inputs and line items.
- Reviewed calculations and proportions in the CRA “B” workpapers and the Transportation Cost Segment workbook.

We conducted this performance audit from June through December 2016 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on November 9, 2016, and included their comments where appropriate.

We assessed the reliability of costing data by interviewing the Cost Attribution team, Cost System and Analysis²² team and St. Louis Solution Center²³ team to determine how the TRACS and SAMS-Alaska data was collected and used. Additionally, we obtained TRACS and SAMS-Alaska data from the Postal Service, and extracted EDW data to validate the Transportation Cost Segment workbook calculations. However, we did not test the accuracy and completeness of TRACS and SAMS-Alaska data. Through our evaluation of this information, we assessed the appropriateness of data inputs. We determined that the data were sufficiently reliable for the purposes of this audit.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Transportation Cost System Inputs Into the Cost and Revenue Analysis Report</i>	Determine whether portions of the CRA report could be prepared more efficiently and effectively using automated data to reduce manual data collection.	CRR-AR-11-004	9/19/2011	\$9.8
<i>Transportation Cost System</i>	Review the effectiveness of the TRACS internal controls and assess the validity and reliability of the TRACS data.	MS-AR-07-002	3/20/2007	N/A

²² This team provides the distribution key for each mode of transportation at the product level based on TRACS data.

²³ This team works with mail that originates and is delivered in Alaska.

Appendix B: Management's Comments

Sharon Owens
Vice President, Pricing & Costing



November 30, 2016

Lori Lau Dillard
Director, Audit Operations

SUBJECT: Cost Segment 14 – Transportation (CP-AR-17-DRAFT)

The Postal Service is pleased that the Office of Inspector General's (OIG) audit team's findings include the determination that "The Postal Service correctly assigned expense accounts to the Transportation Cost Segment for FY 2015." (Draft report at page 2) The Postal Service is also pleased that, after the audit team spent four and a half months reviewing the FY 2015 Cost Segment 14 (Purchased Transportation) workpapers used to attribute costs of purchased transportation to postal products, the audit team was able to identify only one inaccurate cell in an Excel spreadsheet. The Postal Service will correct this single calculation, which was incorrectly summing the rows above as a result of an addition of a general ledger account in FY 2015, to ensure that in the FY 2016 Annual Compliance Report (ACR), the missing 0.014 percent of the Cost Segment 14 costs will be incorporated properly. As noted below, it will also inform the Postal Regulatory Commission (Commission) of correction of the formula in this cell.

The audit team's findings included a summary of this single miscalculation, stating:

The Postal Service did not accurately calculate attributable costs for the Transportation Cost Segment. It omitted an expense account from the attributable costs calculation, which resulted in an \$814,000 understatement. The understatement was .014 percent of the total cost attributed to the Transportation Cost Segment. (Draft report at page 2)

The report does note that:

During this audit, management took corrective action to update the appropriate formula for FY 2016. Management indicated they will inform the PRC of the error when updating the FY 2016 ACR notes, which are due on December 29, 2016. As a result, we are not making a recommendation for this issue but will follow up to ensure corrective action was taken as described. (Draft report at page 2)

Management agrees with the finding that the FY 2015 Transportation Cost workpapers included an inaccurate formula in one cell of the spreadsheet, and that caused the attributable costs for Cost Segment 14 to be understated by \$814,000. Management will correct the error in the FY 2016 purchased transportation cost model and notify the Commission of this correction by documenting it in the prefaces to the relevant ACR folders¹ and within the CS14 workbook on tabs 'Endnotes' and 'Changes from FY2015'.

The audit team's findings also included the following:

The Postal Service relied on current documented procedures and the experience and knowledge of postal personnel to prepare the Transportation Cost Segment calculations. However, the

¹ In Docket No. ACR2016, the relevant folders will be USPS-FY16-32 (public) and USPS-FY16-NP14 (nonpublic).

procedures could be improved by including a list of relevant and accessible studies to calculate transportation costs, steps to extract Postal Service accounting data to perform manual account adjustments, and documented changes that could affect the Transportation cost calculations. These improvements would likely have not prevented the error discussed previously because the error was mistakenly omitted and not directly tied to the procedures needed to prepare the cost segment calculations.

Well-defined and documented procedures would allow the Postal Service to prepare the Transportation Cost Segment in a consistent manner, preserve institutional knowledge, and have a training guide for new employees. (Draft report Highlights and page 2)

This finding led to the single recommendation:

Recommendation 1:

Enhance the current documented procedures to ensure the Transportation Cost Segment is consistently prepared and prevents loss of institutional knowledge. The procedures should include a list of relevant and accessible variability studies; steps for extracting financial data to perform account adjustments; and documented changes that could affect allocation of costs.

Management Response/Action Plan:

Although the audit report itself acknowledges that the improvements embodied in the recommendation "would likely have not prevented the error" that they found, Management agrees to enhance the current documented procedures. Specifically, as Management will have to augment the Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 2016,² in order to comply with the Commission's Order No. 3506, this action will satisfy the recommendation to identify and source the relevant studies used in the purchased transportation cost model. Despite the fact that both postal and Commission staff are able to update and validate, respectively, the Cost Segment 14 workpapers annually, using the existing documentation and the self-documenting nature of Excel, Management agrees to improve the documentation of the procedures needed to extract accounting data to perform manual account adjustments by storing the detailed procedures on the shared drive so other employees within Cost Attribution will have access to the detailed documentation of the process. Management also agrees to use the 'Endnotes' tab in the Cost Segment 14 workpapers to document any changes to the inputs or methods used in those workpapers, including any changes to the accounts mapped into the cost components.

Target Implementation Date:

Management will implement the responses to the recommendations from the OIG by July 1, 2017.

Responsible Official:

Manager, Cost Attribution



Sharon Owens,
Vice President, Pricing and Costing

cc: Maura McNerney, Controller
Virginia Mayes, Manager, Cost Attribution
Sally Haring, Manager, Corporate Audit Response Management

² This document is scheduled to be filed with the Postal Regulatory Commission on July 1, 2017.



Contact us via our [Hotline](#) and [FOIA](#) forms.
Follow us on social networks.
Stay informed.

1735 North Lynn Street
Arlington, VA 22209-2020
(703) 248-2100