Audit Report

Delivery Charge Codes

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Highlights

Objective

The U.S. Postal Service maintains city carrier labor cost data in its Time and Attendance Collection System (TACS). However, this TACS data does not generally associate labor costs with specific mail products and services. Therefore, the Postal Service relies on data from statistical sampling systems, such as the In-Office Cost System (IOCS) and the City Carrier Cost System (CCCS), to determine which city carrier labor costs to allocate to letter routes (normal delivery of letters, parcels, and so on) and special purpose routes (other street delivery activities) as well as which costs to attribute to products and services.

Labor distribution codes (LDC) identify the type and hours of work an employee performs. LDCs are aligned with three-digit Management Operating Data System (MODS) operation numbers that further specify a carrier's current assignment.

On June 30, 2017, the Postal Service submitted a proposal to the Postal Regulatory Commission (PRC) to use more comprehensive data from TACS instead of IOCS sampling data to determine the share of costs for letter routes and special purpose routes (SPR). The Postal Service will still use IOCS and CCCS sampling data to allocate letter route and SPR costs to products and services.

Our objective was to assess the reliability and accuracy of TACS data for city carrier labor costing.

What the OIG Found

The Postal Service could improve the reliability and accuracy of TACS data for use in city carrier labor costing. Specifically:

■ Postal Service delivery personnel did not consistently charge Sunday delivery time to appropriate MODS operation numbers, which resulted in hours being associated with incorrect LDCs. In February 2017, the Postal Service designated a specific LDC for Sunday delivery workhours to more clearly define cost pools for Sunday work activities. However, between February and June 2017, we found personnel inappropriately charged about 67,165 hours

(3 percent) of the total universe of Sunday delivery workhours to LDCs other than the Sunday delivery LDC.

This generally occurred because personnel mistakenly charged Sunday workhours to incorrect LDCs. In addition, the new policy was not consistently communicated to employees and delivery supervisors did not always monitor and correct carriers' clock rings.

"Postal Service delivery personnel did not consistently charge Sunday delivery time to MODS operation numbers, which resulted in hours being associated with incorrect LDCs."

This issue did not impact the current city carrier costing methodology because the Postal Service uses sampling instead of LDC workhour data from TACS for city carrier cost attribution. However, under the Postal Service's proposed methodology to replace IOCS sampling with TACS data to determine the share of costs for letter routes and SPRs, inappropriately charged workhours could impact the accuracy and reliability of total city carrier labor costs allocated to Sunday delivery cost pools and attributed to products and services.

■ Delivery personnel did not always maintain documentation supporting clock ring adjustments to daily workhours.

● In our review of clock ring data for 160 sampled city carriers and city carrier assistants at 12 facilities visited, 57 employees had 243 supervisor adjustments that required supporting documentation. However, we could not verify whether any of the adjustments were substantiated or justified because supervisors did not provide the required documentation for the changes.

Supervisors who responded to our inquiry generally cited poor record keeping practices, such as not completing the forms or not retaining

them beyond the pay period the adjustment occurred, as reasons for not providing the required documentation.

- Of the total 13,053 workhours logged by the 160 sampled delivery personnel, supervisors changed or moved 2,578 (20 percent) of the hours between different MODS operations without documented justification.

The Postal Service does not require supervisors to document a justification for modifying workhours on an existing clock ring. In addition, TACS does not have controls that require entry of a justification before a supervisor adjustment is accepted.

"The ability to adjust clock rings and move work hours between MODS operations without proper justification and oversight increases the risk of improper adjustments."

The ability to adjust clock rings and move workhours between MODS operations without proper justification and oversight increases the risk of improper adjustments. The integrity of workhours associated with the correct MODS operations and LDCs is important so that management has accurate and reliable data to identify, plan, monitor, and control personnel expenses.

In addition, prior audit work found that insufficient controls over clock ring management, such as unsupported changes and noncompliance with policies, increased the Postal Service's risk of grievances, overtime and penalty overtime payments, and punitive damages.

Further, ineffective controls over clock ring adjustments increases the risk that TACS workhour data is not reflective of actual operational activities. This could impact the accuracy and reliability of cost attribution if the Postal Service proposal to use TACS data in city carrier costing is accepted.

- Potential anomalies were identified in TACS data during this review. Specifically, carriers at 12 facilities visited did not have an end tour clock ring in TACS for about 7 percent (4,965 of 67,492) of the delivery scan records analyzed. This may have occurred because carriers did not clock out at the end of their work day, carriers used an expired time card, or supervisors did not correct carriers' clock rings. The inability to effectively account for the end of a work day could affect the carriers' pay and make the Postal Service vulnerable to work claims and legal liability. Furthermore, the reliability of TACS data for city carrier cost attribution would be at risk if the proposed methodology to use TACS data, instead of IOCS data, to determine the share of costs for letter routes and SPRs is approved.

What the OIG Recommended

We recommended management:

1. Reiterate the importance of charging workhours to appropriate operation numbers and LDCs.

2. Modify TACS to establish controls that flag invalid time codes on Sundays. In the interim, develop a process to monitor the accuracy of clock rings and hold personnel accountable for ensuring Sunday delivery workhours are properly charged.

3. Revise Postal Service guidance to require clock ring adjustments to be justified and monitored, and that justifications be maintained.

4. Modify TACS to include a field where managers must annotate reasons for making clock ring adjustments.

5. Establish automated controls to identify and timely correct missing and incorrect end tour clock rings.
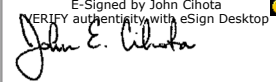
Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

January 19, 2018

MEMORANDUM FOR: KEVIN MCADAMS
VICE PRESIDENT, DELIVERY OPERATIONS

E-Signed by John Cihota
VERIFY authenticity with eSign Desktop

John E. Cihota

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

SUBJECT: Audit Report – Delivery Charge Codes
(Report Number CP-AR-18-002)

This report presents the results of our audit of the U.S. Postal Service's Delivery Charge Codes (Project Number 17BG016CP000).

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 and Pricing, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of Delivery Charge Codes (Project Number 17BG016CP000). We performed this audit 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.[1] Our objective was to assess the reliability and accuracy of Time and Attendance Collection System (TACS)[2] data for use in city carrier labor costing.

In our analysis of Sunday delivery time coding, we reviewed all TACS clock ring data between February and June 2017. Our analysis of supervisor adjustments entailed a review of clock ring data between June 3 and 16, 2017, for a sample of carriers at 12 delivery facilities in four U.S. Postal Service areas we visited. For our analysis of clock ring data anomalies, we reviewed TACS and delivery scan data between February and June 2017, for all carriers at the facilities we visited. See Appendix A for additional information about this audit.

Background

The Postal Service maintains city carrier labor cost data in TACS. The costs in TACS are generally not associated with specific mail products and services. Therefore, the Postal Service relies on data from statistical sampling systems,[3] such as the In-Office Cost System (IOCS)[4] and the City Carrier Cost System (CCCS),[5] to determine which city carrier labor costs to allocate to letter routes and special purpose routes (SPR) as well as which costs to attribute to products and services. Product and service level cost information enables the Postal Service to

determine if each product's and service's revenues covered its attributable costs.[6] It also helps the Postal Service set postal prices.

City carrier labor costs are separated into costs associated with letter routes and SPRs. Letter routes serve virtually all delivery points, every day except Sundays, and encompass over 95 percent of total street costs. SPRs are other street delivery activities generally located in dense urban areas that primarily include delivering parcels and collecting mail from designated collection points.

The labor distribution code (LDC)[7] is a two-digit number in TACS that is used to identify the type of work a Postal Service employee performs. The LDC is used to compile workhours, estimate labor utilization, and support other financial reports for management use. LDCs are aligned with three-digit Management Operating Data System (MODS)[8] operation numbers that further specify a carrier's current assignment and which are used to plan mail processing activities, project workhours, and maintain efficiency. Workhours for each MODS operation are collected through TACS. When employees work on an operation, they enter a MODS operation number into an employee badge reader (EBR) to track their time. For example:

- A city carrier would clock into MODS 718 (City Delivery Carriers, Business – Office) when sorting mail for city delivery letter routes in the office. This MODS operation number aligns with LDC 21 (City Delivery – Office Time).

- A city carrier would clock into MODS 719 (City Delivery Carriers, Residential Foot – Street) for walking to deliver residential mail or MODS 721 (City Delivery Carriers, Residential Motorized – Street) for driving to deliver

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1   U.S. Code, Title 39 – Postal Service, Section 3625(a).
2   TACS is the system used by all installations to automate the collection of employee time and attendance.
3   Samples are collected using in-person observations or by telephone readings. A Postal Service technician gathers and records data related to the activity an employee is performing at a given time and the mailpiece the employee is handling.
4   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 Postal Service uses IOCS to allocate the total labor costs between in-office and street activities as well as city carriers' in-office time spent on each product for letter routes and SPRs.
5   The CCCS gathers data for use in attributing major portions of carriers' salaries, benefits, and related costs to the categories of mail for postal rate-making and related management purposes. The Postal Service uses CCCS and CCCS-SPR to allocate street labor costs for letter routes and SPRs, respectively, to products.
6   Attributable costs are those that are directly or indirectly caused by a product or service.
7   LDCs subdivide the Postal Service's 10 functional categories and designate labor distribution categories for reporting actual and planned hours. The functional categories are Operations - Support, Operations - Mail Processing, Operations - Delivery Services, Operations - Maintenance, Operations - Customer Services, Finance, Human Resources, Customer Service and Sales, Administration, and Training.
8   MODS is a systematic approach to gather, store, and report data on workload, workhours, and machine utilization.

residential mail. These MODS operation numbers align with LDC 22 (City Delivery – Street Time).

- A city carrier would clock into MODS 733 (Parcel Post – Street) for street time delivering parcel post and MODS 734 (Parcel Post – Office) for in-office time preparing for parcel post routes. These MODS operation numbers align with LDC 23 (Other Street Delivery), which records in-office and street time for SPRs.

- A city carrier would clock into MODS 723 (Sunday Parcel – Street) for street time making Sunday parcel route deliveries and MODS 724 (Sunday Parcel – Office) for in-office time preparing Sunday parcel route deliveries. These

MODS operation numbers align with LDC 24 (Sunday Parcels and Fresh), which records in-office and street time for Sunday delivery.

Finding #1: Sunday Delivery City Carrier Workhours

Delivery personnel[9] did not consistently charge Sunday delivery workhours to the assigned Sunday LDC, as shown in Table 1. This resulted in hours being associated with incorrect LDCs. In February 2017, the Postal Service designated LDC 24 to track Sunday Parcel and Fresh delivery so cost pools associated with these delivery initiatives could be more clearly defined.[10] However, between February and June 2017, delivery personnel incorrectly charged about 67,165 (3 percent) of the total Sunday workhours to MODS operations aligned with LDCs 21, 22, or 23 instead of LDC 24.

Table 1. Inappropriately Charged Workhours

Postal Service Area	Total Sunday Workhours	Inappropriately Charged Sunday Workhours	Percent of Inappropriately Charged Sunday Workhours
Eastern	355,825.96	11,481.89	3%
Capital Metro	268,568.77	5,550.92	2%
Great Lakes	272,974.63	7,851.64	3%
Northeastern	538,899.67	21,619.47	4%
Pacific	492,470.94	9,195.29	2%
Southern	396,166.29	7,954.27	2%
Western	370,845.74	3,511.81	1%
Total	**2,693,752.05**	**67,165.29**	**3%**

Source: U.S. Postal Service Office of Inspector General (OIG) analysis based on TACS data.

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9 This applies to city carriers and city carrier assistants (CCA). CCAs are non-career workforce employees and are the first option for Sunday delivery operations, before regular full-time staff, due to their lower hourly wage rate.

10 According to *USPS Memo – Guidelines For Use of LDC 23 and LDC 24*, dated February 2017.

Inappropriately Charged Workhours

2,693,752.05
Total Sunday Workhours

3%

67,165.29
Inappropriately Charged
Sunday Workhours
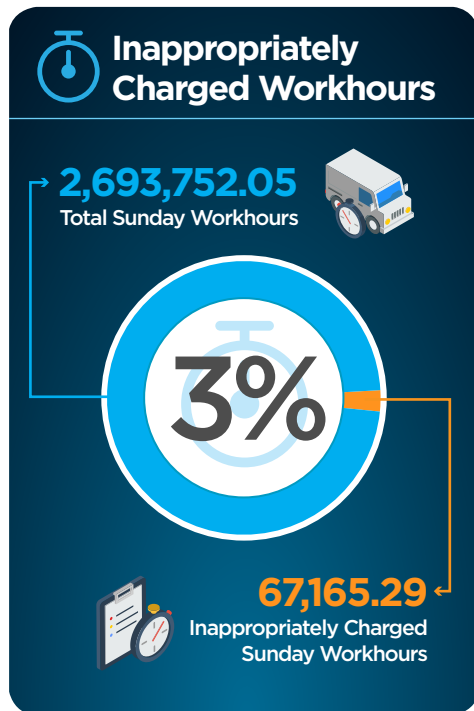
During site visits, we found delivery managers and carriers were generally aware of the new policy of charging workhours to LDC 24 for Sunday delivery.[11] However, delivery personnel did not consistently follow this policy because, in some instances, carriers mistakenly charged Sunday delivery time to other LDCs. In other instances, we found delivery personnel did not fully understand the impact of inappropriately charging Sunday delivery time to other LDCs. In addition, the new policy was not consistently communicated to employees, TACS does not have controls to prevent the use of invalid time codes on Sundays, and delivery supervisors did not always monitor carriers' clock rings and correct them accordingly.

sampling data to determine the share of city carrier costs allocated to letter routes and SPRs.

We determined, under the proposed methodology, the inappropriately charged workhours could have resulted in a misallocation of $3,479,162[13] between city delivery cost pools. Therefore, incorrect recording of Sunday delivery workhours could impact the accuracy and reliability of total city carrier labor costs allocated to Sunday delivery cost pools and attributed to products and services.

Recommendation #1
The Vice President, Delivery Operations, *should reiterate to delivery personnel the importance of charging workhours to appropriate operation numbers and labor distribution codes.*

Recommendation #2
The Vice President, Delivery Operations, should coordinate with the Vice President, Controller, *to modify the Time and Attendance Collection System to establish controls that flag invalid time codes on Sundays for supervisor correction. In the interim, develop a process to monitor the accuracy of clock rings and hold the delivery management team accountable for ensuring Sunday delivery workhours are charged to the proper operation numbers and labor distribution codes.*

We found this issue does not have an impact on the current city carrier costing methodology because the Postal Service uses sampling instead of LDC workhour data from TACS for city carrier cost attribution. However, on June 30, 2017, the Postal Service submitted a proposal to the Postal Regulatory Commission (PRC) to use more comprehensive census[12] data from TACS instead of IOCS

Finding #2: Clock Ring Adjustments

Delivery supervisors at 12 delivery units[14] we visited did not maintain documentation to support clock ring adjustments to daily workhours. Documentation was required to be maintained to support certain clock ring adjustments; however, Postal Service policy does not require supporting documentation be maintained for all clock ring adjustments.

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11 The audit team visited 12 postal facilities in four Postal Service areas and interviewed 26 managers and 64 city carriers.
12 An official count or survey of a population.
13 We determined this amount by multiplying 67,165.29 hours by $51.80. This amount ($51.80) was the lower of the two national average carrier hourly labor rates published in the Postal Service's *Workhour Rates for fiscal years (FY) 2015-2017*. The Other Impact referenced here is data integrity, which entails validating the consistency, accuracy, and completeness of data used by the Postal Service. Data integrity issues occur when management uses unsupported or inaccurate data in decision-making. This can be the result of flawed methodology, procedural errors, or missing or unsupported facts, assumptions, or conclusions.
14 We selected the 12 facilities, as shown in Table 3, because they were among those with the most CCCS samples conducted in FY 2016.

Support Required for Clock Ring Adjustments

Postal Service guidance[15] requires management to maintain supporting documentation when adding a missed basic clock ring, such as begin tour, end tour, and/or out to and in from lunch. Personnel must submit the documentation to a supervisor for approval and correction of the clock ring. Examples of additions, changes, or deletions to clock rings are:

- A clock ring can be added when an employee forgets to swipe his badge at the EBR, loses his badge, or the EBR is not working.

- A clock ring can be changed when an employee uses an incorrect MODS operation number, a manager wishes to transfer hours from one local unit to another, a manager documents an employee not working overtime, or a manager disallows overtime.

- A clock ring can be deleted if it is erroneous, such as a duplicate begin tour.

We reviewed TACS clock ring data for 160 city carriers and CCAs[16] between June 3 and 16, 2017, to determine whether supervisors maintained supporting documentation for adjustments to basic clock rings. We determined 57 employees had 243 supervisor adjustments that required supporting documentation, as shown in Table 2. However, we could not verify whether any of the adjustments were substantiated or justified because supervisors did not provide the required supporting documentation for the clock ring changes.

Unsupported Adjustments to Basic Clock Rings

243 Supervisor Adjustments that needed Form 1260

160 Sampled Carriers

57 Carriers required Form 1260

Changes Required Form 1260

Table 2. Unsupported Adjustments to Basic Clock Rings

Postal Service Area	Number of Carriers Sampled	Number of Carriers Requiring Form 1260	Number of Adjustments Requiring Form 1260	Number of Form 1260s Provided
Great Lakes	40	20	83	0
Northeastern	40	15	66	0
Capital Metro	40	9	26	0
Eastern	40	13	68	0
Total	**160**	**57**	**243**	**0**

Source: OIG analysis based on TACS data.

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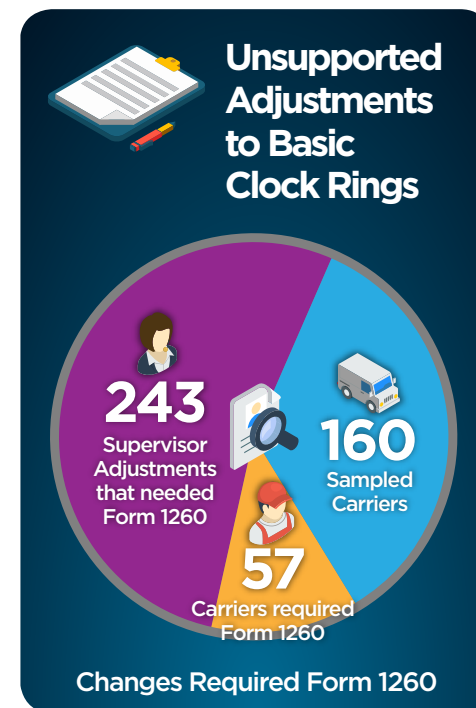
15 According to the *TACS Supervisor Training Participant Workbook*, dated July 2017, Postal Service Form 1260 – *Non-Electronic Badge Reader Card* – is required to be completed by the employee and signed by the supervisor for missed basic clock rings.

16 We selected the 160 employees from the 12 facilities we visited. Specifically, we selected a simple random sample of 40 carriers and CCAs from TACS data for each of the four areas the facilities were located in, as shown in Tables 2 and 3.

We requested supervisors at the 12 postal facilities provide the required support documentation, however:

- We did not receive a response from supervisors at four facilities after multiple attempts to coordinate with various field supervisors and managers and headquarters management.

- Supervisors at four other facilities stated they did not have any documentation on file for the requested time period even though the TACS data showed supervisors had made adjustments to basic clock rings during that time. Supervisors generally cited poor record keeping practices, such as failure to complete the forms or not retaining them beyond the pay

period the adjustments occurred, as reasons they could not provide the required documentation.

- Supervisors at the remaining four facilities provided documentation, but none of them supported the adjustments to the basic clock rings we identified in our sample.

Support Not Required for Clock Ring Adjustments

During our review of the total workhours logged by the 160 sampled carriers between June 3 and 16, 2017, we found supervisors changed or moved about 2,578 (20 percent) of about 13,053 hours, as shown in Table 3, between different MODS operations without documented justifications for the adjustments.[17]

Table 3. Adjusted Workhours

Postal Service Area	Delivery Facility	Number of Carriers	Total Workhours	Total Adjusted Workhours	Percentage of Adjusted Workhours
Great Lakes	Fort Dearborn Station	17	1,499.19	377.97	25%
Great Lakes	Chicago Central Annex	14	1,154.53	149.85	13%
Great Lakes	Chicago Loop Station	9	547.54	103.27	19%
Northeastern	Murray Hill Station	17	1,162.69	169.31	15%
Northeastern	James A. Farley Station	9	750.40	215.00	29%
Northeastern	Grand Central Station	14	1,165.93	346.41	30%
Capital Metro	Silver Spring - Takoma Park	14	1,094.86	216.25	20%
Capital Metro	Alexandria Memorial Annex	11	916.98	99.54	11%
Capital Metro	Anne Arundel Destination Delivery Unit	15	1,177.91	206.35	18%
Eastern	William Penn Annex	11	984.36	89.81	9%

17 This does not include supervisor adjustments for missed basic clock rings.

Postal Service Area	Delivery Facility	Number of Carriers	Total Workhours	Total Adjusted Workhours	Percentage of Adjusted Workhours
Eastern	Main Office Station	15	1,165.85	149.33	13%
Eastern	Southwark Station	14	1,432.60	454.88	32%
Totals		**160**	**13,052.84**	**2,577.97**	**20%**

Source: OIG analysis based on TACS data.

This occurred because:

- The Postal Service does not require supervisors to document a justification for adding an operation move or changing workhours on an existing clock ring.

- Delivery managers indicated there is no higher-level review and approval for the clock ring adjustments.

- TACS does not have controls that require entry of a justification before a supervisor adjustment is accepted by the system.

Noncompliance with clock ring policy and the ability to move hours without a tracking mechanism decreases the reliability of the TACS workhour data.[18] This allows for the possibility of improperly adjusted workhours.

Ineffective controls over clock ring adjustments also increases the risk that TACS data is not reflective of actual operational activities. This could impact the accuracy and reliability of cost attribution if the Postal Service proposal for the use of TACS data in city carrier costing is approved. It could also increase the Postal Service's risk of grievances, overtime and penalty overtime payments, and punitive damages.[19]

In addition, maintaining appropriate support documentation is widely known to be an important internal control and best business practice. This documentation

> "*Ineffective controls over clock ring adjustments increases the risk that TACS work hour data is not reflective of actual operational activities.*"

would provide greater transparency into the adjustment of workhours and allow management to validate the accuracy of the adjustments. Labor costs are about 80 percent of the Postal Service's total operating expenses; therefore, it is important for management to concentrate on the control of personnel expenses. The integrity of workhours in the correct MODS operations and LDCs is important because that data is the foundation for the National Workhours Reporting System (NWRS),[20] which is a tool management uses to identify, plan, monitor, and control personnel expenses. Accurate LDC data can also provide functional managers with the ability to analyze performance and identify problems in specific work activities.

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18 This poses a data integrity risk, which is 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.
19 *Allegations of Inaccurate Time and Attendance Records* (Report Number HR-AR-11-001, dated March 31, 2011).
20 NWRS records the hours worked by LDC and 10 distinct functional categories throughout the fiscal year.

Recommendation #3

The Vice President, Delivery Operations, *should revise Postal Service guidance to (1) require delivery managers justify and support all clock ring adjustments, (2) include an appropriate retention period for documenting clock ring adjustments, and (3) establish periodic monitoring of clock ring adjustments to ensure employee workhour changes are accurate, justified, and supported.*

Recommendation #4

The Vice President, Delivery Operations, should coordinate with the Vice President, Controller, *to modify the Time and Attendance Collection System to include a field where managers must annotate reasons for making clock ring adjustments to enhance visibility and oversight and to ensure compliance with policy.*

Finding #3: Clock Ring Data Anomalies

We identified anomalies in TACS data during our analysis of clock ring time stamps compared to carriers' managed service point (MSP) scan times. The MSP program is designed to use Mobile Delivery Devices (MDD) to monitor delivery time consistency and enhance street management. Using the MDDs, city carriers are required to scan barcodes placed at service points reflecting key milestones of a carriers' workday. The MSP provides the time of arrival at pivotal locations along a route's line of travel.

We analyzed TACS and MSP data for delivery personnel at the 12 postal facilities we visited from February to June 2017. Our testing focused on a comparison of the last delivery MSP scan, which signifies the end of a carrier's route, with the end tour time in TACS to determine whether significant discrepancies existed. We found carriers did not have an end tour clock ring or could not be found in the facilities' TACS data for about 7 percent (4,965 of 67,492) of the last delivery MSP

scan records analyzed. Postal Service policy[21] states supervisors are responsible for ensuring employees clock in and out according to their assigned schedules. However, according to a TACS coordinator, missing end tour clock rings may have occurred because the employees did not swipe their time card at the EBR to clock out at the end of their work day or used an expired time card. In addition, an employee may not show up in the TACS data for a facility if their workhours were automatically charged to a base facility and the employee or supervisor did not transfer the hours to the actual facility the employee worked on a given day. Missing end tour clock rings could leave the Postal Service susceptible to employee work claims of not being paid commensurate to actual work performed. It also makes it difficult to identify actual hours worked on an activity, on a given work day. If the proposal to use TACS data to determine the share of city carrier costs allocated between letter routes and SPRs is approved, this issue could impact the accuracy and reliability of the cost attribution.

We also found the end tour time in TACS preceded the last delivery MSP scan 0.12 percent of the time (specifically, 74 of 61,685 records).[22] This occurred because supervisors did not always identify when carriers were delivering mail beyond their end tour time and did not correct clock rings accordingly. Although the occurrence of this anomaly was not material based on the records we reviewed, it could be significant if the anomaly is a more systemic issue. This issue could put the Postal Service at risk of grievances and legal liability if carriers were not paid for the total hours worked. Further, when end tour times precede last delivery times, TACS is not fully capturing the total hours worked for the activities that occurred. While our analysis indicates minimal impact, this issue could also affect the accuracy of reported carrier workhours and activities for cost attribution purposes if it is a more prevalent issue nationwide. However, due to the low percentage of anomalies for TACS end tour times preceding last delivery MSP scans, we are not making any specific recommendation regarding this aspect of our finding.

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21 Handbook F-21, *Time and Attendance*, dated August 2009.
22 The 61,685 scan records exclude 5,807 records for which the end tour clock rings could not be found in the TACS data due to: missing end tour clock ring, carrier not listed in the TACS data for the facility, or other reasons.

> **Recommendation #5**
>
> **The Vice President, Delivery Operations,** *should coordinate with the Vice President, Controller, to establish automated controls that ensure delivery supervisors identify missing and incorrect end tour clock rings and make the necessary and timely corrections in the Time and Attendance Collection System.*

Management's Comments

Management disagreed with all our findings and recommendations. Management stated that recommendation 1 was vague, subjective, and unquantifiable. They asserted the Postal Service has well-established time and attendance practices and controls. Regarding recommendation 2, management stated the Staff and Scheduling Tool already identifies workhour utilization by LDC.

Further, for finding 1, management stated the OIG did not consider Sunday delivery time that falls under LDC 23 instead of LDC 24. Management also stated that, while LDC 24 was created in February 2017, full implementation did not occur until May 2017. Management noted the Postal Service's current proposal to the PRC in Docket No. RM2017-9, Proposal Five, would use TACS data to form cost pools for city carrier letter routes and SPRs. IOCS would still be used to assign relevant costs to products within each cost pool.

Management also disagreed with the OIG's estimated impact of inappropriately charged Sunday delivery workhours for the following reasons: (1) the city carrier wage rate used was more than 25 percent higher than that filed in the FY 2017 Annual Compliance Report (ACR); (2) the calculation did not consider most carriers who work on Sundays are CCAs; and (3) the calculation assumes all inappropriately charged workhours were assigned to letter route LDCs.

In response to recommendation 3, management stated that there is no reason to justify clock ring move corrections because TACS provides reports identifying adjustments and the employee making the adjustment. In response to recommendation 4, management claimed there is no rationale for justifying clock ring move corrections; rather, they only need to justify time disallowance.

Management also disagreed that such measures would correct the accuracy of the data for costing purposes.

In response to finding 2, management stated that the OIG did not clarify the type of adjustment, the reasoning for required supporting documentation, or the documentation requested. Moreover, adjustments between MODS operations do not require hard copy documentation since TACS records the occurrence of all adjustments and the associated employee and generates reports for oversight and correction of errors.

In response to recommendation 5, management stated that a missing end tour is a fatal clock ring error and there is already an established control in place to identify and correct this error. Further, regarding the associated finding 3, management stated that most Sunday workhours occur in Hub Control Units where many carriers do not have time cards and supervisors must input end tour times.

Management also stated that workhours for Sunday parcels and Amazon Fresh deliveries are tracked under the same LDC and that the definition of attributable costs we used in the report had changed.

See Appendix B for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments unresponsive to the recommendations in the report. Regarding finding 1 and recommendations 1 and 2, the OIG based its analysis on confirmation from delivery management, during multiple meetings and in electronic correspondence, that Sunday delivery workhours for city carriers and CCAs should be charged to operations aligned to LDC 24.[23] In addition, the OIG believes the scope of February to June 2017 for this analysis was reasonable based on the Postal Service's own guidelines. The February 2017 *Guidelines for Use of LDC 23 and LDC 24* states: "The new LDC 24 was implemented on February 4, 2017. A letter was sent to the area vice presidents and to all Finance and Accounting groups in the field instructing them to begin transferring workhours…to the new LDC 24 on that date."

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23 Except for peak season. However, the scope of our analysis did not cover peak season, so the exception did not apply here.

In addition, subsequent analysis showed the Sunday workhour error rate generally remained constant or increased in June 2017, compared to our initial analysis. Further, during site visits in July and August 2017, we found some delivery personnel were not clear about the LDC 24 policy. The OIG believes reiteration to the field of the importance of appropriately charging workhours is necessary to ensure supervisors and employees are cognizant of proper clock ring procedures. Further, stronger controls are warranted, as the current control measures did not identify and correct clock ring errors.

The OIG agrees and explains in the report that the proposal to use TACS data for city carrier cost attribution would not replace IOCS sampling entirely. We added clarifying information on the Highlights page of the report to address management's concerns.

To estimate the impact of inappropriately charged Sunday delivery workhours, the OIG used the lower of the two FY 2017 national average carrier hourly labor rates published in the Postal Service's *Workhour Rates for Fiscal Years (FY) 2015-2017*. We provided this information to management prior to the exit conference. They did not identify any issues with the estimate at that time. Further, the FY 2017 ACR had not yet been published at the time of our analysis.

Regarding finding 2 and recommendations 3 and 4, we explained in the report that the 243 supervisor adjustments applied to basic clock rings. In Footnote 15, we explained the *TACS Supervisor Training Participant Workbook*, dated July 2017, states that Postal Service Form 1260, Non-Electronic Badge Reader Card, must be completed by the employee and signed by the supervisor for missed basic clock rings.

The OIG also stated in the report that TACS adjustments between MODS operations do not require documentation; however, additional controls over this process is important considering recent complaints and ongoing congressional inquiries regarding potentially unauthorized and questionable timecard changes by supervisors. Further, prior audit coverage found that insufficient controls over supervisor adjustments caused the Postal Service to pay overtime and penalty overtime and to pay costly punitive damages.

The OIG believes stronger time and attendance controls would help management ensure supervisor adjustments are proper. Further, these controls would help minimize the number of grievances and safeguard against costly legal liability. We disagree that these measures would not improve accuracy for costing purposes. Enhanced controls would allow for more proactive and efficient identification and correction of misallocated delivery workhours.

Regarding finding 3 and recommendation 5, the OIG's analysis of TACS data was conducted on archived data from February to June 2017. The TACS data for this analysis was retrieved in September 2017, well after the close of the pay periods within the scope; however, the missing end tours remained. Effective controls should have identified and alerted supervisors to correct missing clock rings before the time of our analysis. Therefore, the OIG believes more effective automated controls are warranted to ensure flagged clock ring errors are reviewed and corrected.

Although management was given time to review the report and identify any factual inaccuracies prior to the issuance of the draft report, they failed to do so. However, based on the comments, the OIG removed one statement of concern regarding LDC examples. The OIG used the definition of attributable costs as stated in the Postal Accountability and Enhancement Act of 2006. The definition the OIG used is a high-level overview, whereas management's definition is more detailed. These definitions do not contradict each other; therefore, we did not revise the definition in the report.

All recommendations require OIG concurrence before closure. The OIG requests written confirmation when corrective actions are completed. Recommendations 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 view the disagreements on all recommendations (1 through 5) as unresolved and plan to pursue them through the formal audit resolution process.

Appendices

Click on the appendix title below to navigate to the section content.

Appendix A: Additional Information

Scope and Methodology

The scope of our audit was to assess the reliability and accuracy of delivery charge code data from February to June 2017. We focused on the procedures and controls in place to ensure city carriers and CCAs charged workhours to the proper MODS operation numbers and LDCs to assess the reliability of TACS data for city carrier cost attribution.

To accomplish our objective, we:

- Reviewed Postal Service regulations, policies, and procedures for delivery operations, clock ring management, MODS operation codes, LDCs, and general TACS data management related to city carrier work.

- Reviewed the PRC website to identify relevant case files submitted by the Postal Service, mailer responses, and PRC actions taken.

- Interviewed responsible Postal Service personnel to gain an understanding of clock ring management.

- Analyzed data retrieved from TACS, the Delivery Operations Information System (DOIS),[24] and eFlash[25] to understand the relationships between the various data systems.

- Selected 12 delivery facilities in four Postal Service areas for site visits based on the number of CCCS samples conducted within FY 2016:

  - **Capital Metro** – Alexandria Memorial Annex, Ann Arundel Destination Delivery Unit, and Silver Spring – Takoma Park.

  - **Northeastern** – James A. Farley Station, Murray Hill Station, and Grand Central Station.

  - **Great Lakes** – Chicago Central Annex, Fort Dearborn Station, and Chicago Loop Station.

  - **Eastern** – Philadelphia Main Office Station, William Penn Annex, and Southwark Station.

- Interviewed 26 managers and 64 city carriers to determine their daily operational activities and their knowledge of clock ring management policies and procedures.

- Selected a simple random sample of 160 carriers at the 12 facilities we visited for our analysis of clock ring data to determine whether supervisors justified and maintained support documentation for clock ring additions, deletions, or movement of workhours between MODS operation numbers and LDCs.

- Obtained and compared MSP scan data from the Electronic Data Warehouse[26] to TACS data to assess any discrepancies.

- Evaluated IOCS exception reports generated from discrepancies between IOCS sampling data and TACS data.

- Used the OIG MODS risk model to review exception reports for errors in reported workhours or volume. The OIG MODS risk model identifies reporting errors that can affect the Postal Service's cost and pricing estimates. Common MODS reporting errors include (1) workhours recorded in an operation with no mail volume and (2) mail volume recorded in an operation with no workhours. We did not identify issues after reviewing the OIG MODS exception reports because they did not contain any MODS operation numbers applicable to our audit.

We conducted this performance audit from June 2017 through January 2018 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

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24 DOIS provides delivery unit management information, such as route and performance data, that supervisors use to make decisions and manage workload.
25 The eFlash application is a weekly operating reporting management system. It combines data from delivery, mail processing, employee relations, labor relations, and finance to generate reports used as management tools for various functional areas.
26 A repository for all data and the central source for information on retail, financial, and operational performance.

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 December 5, 2017, and included their comments where appropriate.

We assessed the reliability of computer-generated data from TACS by analyzing controls over clock ring changes and comparing MSP scan times with TACS clock ring times. We determined the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

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

Appendix B: Management's Comments

UNITED STATES POSTAL SERVICE

January 5, 2018

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Delivery Charge Codes
          Report No. CP-AR-18-DRAFT

Postal Service Headquarters has reviewed the findings and recommendations outlined in the Office of Inspector General (OIG) Delivery Charge Codes report. Overall, we are in disagreement with the findings within this report. The following are specific OIG comments and our contentions:

OIG report: Highlights Section, Objectives paragraph 2
Labor distribution codes (LDC) identify the type and hours of work an employee performs. For example, there is an LDC to track work hours for Sunday parcels and another LDC to track Amazon Fresh deliveries.

USPS Comments: Sunday parcels and Amazon Fresh, both fall under LDC 24.

OIG report: Highlights Section, What The OIG Found, column 2
Postal Service delivery personnel did not consistently charge Sunday delivery time to MODS operation numbers, which resulted in hours (3 percent) being associated with incorrect LDCs. In February 2017, the Postal Service designated a specific LDC for Sunday delivery work hours to more clearly define cost pools for Sunday work activities. However; between February and June 2017, we found personnel inappropriately charged about 67,165 hours (3 percent) of the total universe of Sunday delivery work hours to LDCs other than the Sunday delivery LDC.

This generally occurred because personnel mistakenly charged Sunday work hours to incorrect LDCs. In addition, the new policy was not consistently communicated to employees and delivery supervisors did not always monitor and correct carriers' clock rings.

This issue did not impact the current city carrier costing methodology because the Postal Service uses sampling instead of LDC work hour data from TACS for city carrier cost attribution. However under the Postal Service's proposed methodology to replace IOCS sampling with TACS data, inappropriately charged work hours could impact the accuracy and reliability of total city carrier costs allocated to Sunday cost pools and attributed to products and services.

USPS Comments: This statement is presumptuous and fails to take into account that not all Sunday delivery work hours fall under the same LDC. As example, Priority Express Mail delivery falls under LDC 23, which occurs every Sunday. LDC 24 was created in February however, guidelines and procedures were communicated to field management in May 2017. Implementation was not at 100% during the five month sampling period beginning in February. Three percent of total Sunday work hours identified as inappropriately charged is actually a reflection of approximately 3 weeks of data all of which were presumed incorrect.

The statement by OIG characterizing the Postal Service's current proposal is misleading. The proposal proffered by the Postal Service in Docket No. RM2017-9, Proposal Five does not replace IOCS sampling with TACS data. Under Proposal Five, TACS data would be used to form the cost pools for city carrier letter routes (primarily LDCs 21 and 22) and special purpose routes (LDCs 23, 24 and 27). Subsequently, IOCS data, as it currently does, would be used to assign the relevant costs to products within each cost pool. Hence, under Proposal Five, only work hours incorrectly recorded across cost pools (e.g. hours to LDC 21, letter route, rather than LDC 24, special purpose route) would impact the attribution of costs to products. Because, the OIG failed to disaggregate the three percent of Sunday work hours it identified as incorrect by LDC, the true impact cannot be determined. If, for instance, most of the three percent of work hours identified by the OIG were assigned to LDC 23, the resulting impact on cost attribution would be minimal because the work hours were being assigned correctly to the special purpose route cost pool and IOCS would then be used to assign those costs to products.

OIG report: Highlights Section, page 2
In review of clock ring data for 160 sampled city carriers and city carrier assistants at 12 facilities visited, 57 employees had 243 supervisor adjustments that required supporting documentation. However, we could not verify whether any of the adjustments were substantiated or justified because supervisors did not provide the required documentation for the changes.

Supervisors who responded to our inquiry generally cited poor record keeping practices, such as not completing the forms or not retaining them beyond the pay period the adjustment occurred, as reasons for not providing the required documentation.

Of the total 13,053 work hours logged by the 160 sampled delivery personnel, supervisor changed or moved 2,578 (20 percent) of the hours between different MODS operations without documented justification.

The ability to adjust clock rings and move work hours between MODS operations without proper justification and oversight increases the risk of improper adjustments. The integrity of work hours associated to the correct

MODS operations and LDCs is important so that management has accurate and reliable data to identify, plan, monitor and control personnel expenses

USPS Comments: This is vague and does not provide clarity as to the type of adjustment nor the reasoning for requiring supporting documentation on the 243 supervisor adjustments and is unclear as to the required documentation requested. Adjustments between MODS do not require hard copy documentation. The Time and Attendance Collection System (TACS), records the employee identification of all adjustments input and compiles this data into various reports within the program which are available to all levels of oversight. This is demonstration of the Postal Service's established process to identify, correct and track incorrect clock rings resulting in reliable data.

<u>OIG Report: Highlights Section, page 2 column 2</u>
Potential anomalies were identified in TACS data during this review. Specifically, carriers at 12 facilities visited did not have an end tour clock ring in TACS for about 7 percent (4,965 of 67,492) of the delivery scan records analyzed. This may have occurred because carriers did not clock out at the end of their work day, carriers used an expired time card, or supervisors did not correct carriers' clock rings. The inability to effectively account for the end of a work day could affect the carriers' pay and make the Postal Service vulnerable to work claims and legal liability. Furthermore, the reliability of TACS data for city carrier cost attribution would be at risk if the proposed methodology to replace IOCS sampling with TACS data is approved.

USPS Comment: Most Sunday work hours are completed in Hub Control Units (HCU), whereas many carriers do not have time cards thus requiring supervisors to input end tours. The TACS system is already programed to identify and flag missing or incorrect basic clock rings therefore preventing potential errors or omissions to employee paid hours.

<u>OIG Report: Page 1 Footnote 8</u>
Attributable costs are those that are directly or indirectly caused by a product or service.

USPS Comment: The definition of attributable costs has changed. In Docket No. RM2016-13, Order No. 3641, the Commission finalized its rules regarding the definition of attributable costs.[1] In its Order, the Commission established that a product's attributable cost will be defined as the sum of its volume variable, its product specific, and those inframarginal costs calculated as part of a product's incremental costs.[2]

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[1] The Commission established Docket No. RM2016-13 with Order No. 3507 on September 9, 2016 to make conforming changes to rules that specifically define or describe attributable costs, pursuant to Commission Order No. 3506 in Docket No. RM2016-2. Order No. 3506 discusses in detail the rationale for changing the calculation of attributable costs.
[2] Docket No. RM2016-13, Order No. 3641 at 10.

<u>OIG Report: Pages 3-4:</u>
We determined, under the proposed methodology, the inappropriately charged work hours could have resulted in a misallocation of $3,479,162 between city carrier cost pools (based on wage rate of $51.80).

USPS Comment: The possible misallocation cost impact cited by the OIG is overstated for three reasons. One, the city carrier wage rate filed in the 2017 ACR was $40.43 (USPS-FY17-7) rather than $51.80.[3] The rate used by the OIG is more than twenty-five percent higher resulting in a materially higher amount of possible misallocation of costs. Two, the calculation done by the OIG to measure the possible misallocation assumes that the labor cost of a work hour on Sunday is equal to the average labor cost per hour for all city carriers. Thus, it fails to account for the fact that most carriers working on Sundays are City Carrier Assistants (CCAs). CCAs earn a significantly lower hourly wage that full-time city carriers. According to the PP 20 – FY 2017 National Payroll Hours Summary Report (NPHS), the YTD average hourly wage for CCAs was $20.17. Rather than using the average wage rate of all city carriers, TACS could be used to accurately determine the cost of a city carrier labor hour on Sunday. This would greatly improve, and reduce, the possible amount of misallocation between cost pools. Three, the OIGs estimated amount of possible misallocation assumes that all of the sixty-seven thousand inappropriately charged work hours were assigned to letter route LDCs. However, under Proposal Five, hours inappropriately assigned to LDCs 23 or 27 would not result in erroneous costing assignments because TACS would categorize them correctly in the special purpose cost pool. In sum, the OIG estimate of the amount of costs subject to possible misallocation is flawed and could be significantly improved by using 1) only the amount of hours incorrectly assigned between letter route and special purpose route cost pools and 2) an hourly wage rate accurate for city carrier costs incurred on Sundays.

The following is our response to the OIG recommendations contained in the report:

<u>Recommendation #1</u>
The Vice President, Delivery Operations, should reiterate to delivery personnel the importance of charging work hours to appropriate operation numbers and labor distribution codes.

<u>Management Response/Action Plan</u>
Postal Service Headquarters disagrees with this recommendation due to the fact that it is vague, subjective and virtually non-quantifiable.

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[3] The 2017 ACR was not filed until December 29, 2017. However, the consolidated city carrier YTD wage rate on the PP20 –FY 2017 NPHS report was $40.42.

USPS has well established time and attendance practices; TACS training is required for all employees who are authorized with timekeeping capabilities. Training is documented through the Learning Management System (LMS).

Recommendation #2
The Vice President, Delivery Operations, should coordinate with the Vice President, Controller, to modify the Time and Attendance Collection System to establish controls that flag invalid time codes on Sundays for supervisor correction. In the interim, develop a process to monitor the accuracy of clock rings and hold the delivery management team accountable for ensuring Sunday delivery work hours are charged to the proper operation numbers and labor distribution codes.

Management Response/Action Plan
Postal Service Headquarters disagrees with this recommendation. The Staffing & Scheduling Tool (SST), already identifies all hours' utilization by LDC.

Recommendation #3
The Vice President, Delivery Operations, should revise Postal Service guidance to (1) require delivery managers justify and support all clock ring adjustments, (2) include an appropriate retention period for documenting clock ring adjustments, and (3) establish periodic monitoring of clock ring adjustments to ensure employee work hour changes are accurate, justified, and supported.

Management Response/Action Plan
Postal Service Headquarters disagrees with this recommendation. We see no reason to justify clock ring move corrections since TACS already provides reports within to identify this with employees identification attached.

Recommendation #4
The Vice President, Delivery Operations, should coordinate with the Vice President, Controller, to modify the Time and Attendance Collection System to include a field where managers must annotate reasons for making clock ring adjustments to enhance visibility and oversight and to ensure compliance with policy

Management Response/Action Plan
Postal Service Headquarters disagrees with this recommendation as we see no rationale for justifying clock ring move corrections and concur that the current requirement of justifying time disallowance only is correct. Such measures will not correct the accuracy for costing purposes.
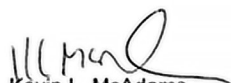
Recommendation #5
The Vice President, Delivery Operations, should coordinate with the Vice President, Controller, to establish automated controls that ensure delivery supervisors identify missing and incorrect end tour clock rings and make the

necessary and timely corrections in the Time and Attendance Collection System.

Management Response/Action Plan
Postal Service Headquarters disagrees with this recommendation as a missing end tour is a fatal clock ring error and is already an established control method for identifying/correcting the missing end tour.

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Maura A. McDevitt
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cc: Sally K. Haring, Manager Corporate Audit Response Management

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